

CATALOG
1945 J 78
V. 81



3 3398 00207 6189

The Province of Alberta

IN THE MATTER OF "THE NATURAL
GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into
Scheme to be adopted for Gathering,
Processing and Transmission of
Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta April 24th, 1946

VOLUME 81

I N D E X

VOLUME 81

April 24th, 1946.

W I T N E S S E S

Page

Discussion re Royalite Breakdown Statements..... 6445

EDWARD ARTHUR GEOFFREY COLLS

Direct Examination by Mr. Blanchard..... 6447
Cross-Examination by Mr. Chambers..... 6459
Cross-Examination by Mr. Harvie..... 6464
Cross-Examination by Mr. McDonald..... 6466
Cross-Examination by Mr. Harvie..... 6473
Cross-Examination by Mr. Chambers..... 6475

F. A. BROWNIE (Recalled)

Cross-Examination by Mr. Fenerty..... 6483

RUSSELL DANFORTH MERCER (Recalled)

Cross-Examination by Mr. Fenerty..... 6494
Examination by the Chairman..... 6501

Discussion..... 6504

E X H I B I T S

No.

176 Submission of Consolidated Mining & Smelting
Company of Canada Limited..... 6448

: : : : :

1954

1955

1. ...
2. ...
3. ...
4. ...
5. ...

6. ...
7. ...
8. ...
9. ...
10. ...

11. ...
12. ...
13. ...
14. ...
15. ...

M-1-1 - 9.30 A.M.

Discussion re
Exhibit 175.

- 6445 -

VOLUME 81

Wednesday,
April 24th, 1946.

MR. FENERTY: Mr. Chairman, I want to mention for a moment about those statements produced yesterday before we go on. We have had an opportunity of examining these statements and very short examination, a matter of seconds, discloses and I think I am quite accurate in saying it, that these statements are not and cannot possibly be the statements referred to by Mr. Kirkpatrick in his evidence. These statements show a break down between crude oil wells and gas wells for depletion purposes. They show no break down as between the three departments referred to in the examination of Mr. Kirkpatrick. They show no portion of gathering costs on a realization basis, on the basis that Mr. Kirkpatrick thought was 60% for the gas industry and for the absorption plant, -40% for the dry gas industry. And the break down that he referred to and that we were interested in are just not dealt with and are not here and has nothing to do with it and the break down for depletion purposes between the gas wells and crude oil wells cannot possibly have anything to do with the statement that Mr. Kirkpatrick is referring to. I do not want to take too much time with it. I do not know of how much importance they are. The thing has become now a mystery and I am not entirely accustomed to mysteries of this nature when directions have been given by the Board and I think that explanations should be given and I do not think that anybody can think they have anything to do with the statements referred to by Mr. Kirkpatrick.

MR. CHAMBERS: Mr. Mercer was in the box yesterday. His evidence is on the record. He will be here this morning, and if my learned friend thinks there are any other statements he

1. The first group of people who are interested in the study of the history of the United States are the people who are interested in the history of the United States.

1. The first part of the document is a list of names and titles, including "The Hon. Mr. Justice" and "The Hon. Mr. Justice".

1. The first part of the document is a list of names and titles, including "The Hon. Mr. Justice" and "The Hon. Mr. Justice".

Discussion re
Exhibit 175.

- 6446 -

can cross-examine him on. I do not know of any other statements frankly. Mr. Mercer will be here and my learned friend can cross-examine him as to what other statements there are and if he wants to get in touch with Mr. Kirkpatrick and have his evidence taken on commission that is his privilege to do so, but I am not going to manufacture evidence or prepare statements because my learned friend thinks there should be some.

MR. FENERTY: Let us be clear as to the evidence. We have the evidence under oath of Mr. Kirkpatrick that these statements were prepared. We have a statement of Mr. Chambers as Counsel that they are under the control of Mr. Mercer.

MR. CHAMBERS: You have not my statement. You have Mr. Mercer's statement.

THE CHAIRMAN: One at a time.

MR. FENERTY: I will read it again then as possibly Mr. Chambers may have been misled. But, when my friend talks about me getting a commission to get further evidence from Mr. Kirkpatrick I do not have to do it. I have his sworn statement and all I want Mr. Mercer to tell me is why they are not there or where they have gone to.

THE CHAIRMAN: I have ordered them to be produced. What more can I do Mr. Fenerty?

MR. FENERTY: All I am saying is this, that the Board has ordered the statements referred to by Mr. Kirkpatrick to be produced. I frankly don't want anything else produced unless it is a statement that the statements are lost.

THE CHAIRMAN: Well Mr. Mercer can go into the box as he will be here this morning, but in the meantime we are going on with the submission of Mr. Johannson.

Q-10

Q-11: Now, you say that you do not know of any other relatives of the deceased who were in the area at the time of the shooting? A-11: Yes, I do not know of any other relatives who were in the area at the time of the shooting.

Q-12: And you say that you did not see any other relatives of the deceased who were in the area at the time of the shooting? A-12: Yes, I did not see any other relatives of the deceased who were in the area at the time of the shooting.

Q-13: Now, you say that you did not see any other relatives of the deceased who were in the area at the time of the shooting? A-13: Yes, I did not see any other relatives of the deceased who were in the area at the time of the shooting.

Q-14: And you say that you did not see any other relatives of the deceased who were in the area at the time of the shooting? A-14: Yes, I did not see any other relatives of the deceased who were in the area at the time of the shooting.

Q-15: Now, you say that you did not see any other relatives of the deceased who were in the area at the time of the shooting? A-15: Yes, I did not see any other relatives of the deceased who were in the area at the time of the shooting.

1-1-7
Edward A. G. Colls,
Dir. Exam. by Mr. Blanchard.

- 6447 -

MR. BLANCHARD: Mr. Chairman, the Consolidated Mining & Smelting Company Limited which operates the Nitrogen Plant at Turner Valley through a subsidiary, Alberta Nitrogen Products, as Agents for the Dominion Government has been invited to present a submission relating to its present consumption and estimated future requirements of natural gas. Now the submission will also present certain figures designed to illustrate the comparative cost, unit cost, of gathering, transmission and scrubbing with and without the Nitrogen load and I just want to say sir in presenting those figures it is not suggested that they should be adopted by the Board. Mr. Hamilton's figures in his alternative bases as contained in Exhibit 124 are used as the basis for this comparison and as I say they are merely for the purposes of illustration. I have been requested by my friend, Mr. Johannson, Solicitor for the Company, to assist in presenting the submission and since there is nothing I have to controvert in the submission I assume there is no objection to my leading the evidence.

EDWARD ARTHUR GEOFFREY COLLS, having been duly sworn, Examined by Mr. Blanchard, testified:

Q You are an official of the Consolidated Mining and Smelting Company of Canada I see ?

A Yes sir.

Q And I believe you reside in Trail ?

A In Trail.

Q What is your official position with the Company ?

A I am Manager of the Chemical and Fertilizer Division of the Company.

Q And generally speaking the plant at Turner Siding comes under

UNITED STATES OF AMERICA
DISTRICT COURT OF SOUTHERN DISTRICT OF NEW YORK

1944

IN SENATE, January 11, 1944.
REPORT OF THE COMMISSIONER OF THE DISTRICT COURT OF SOUTHERN DISTRICT OF NEW YORK, FOR THE YEAR 1943.
The Commissioner of the District Court of Southern District of New York, in compliance with the provisions of the Act of March 3, 1907, Chapter 275, Section 1, has the honor to submit herewith the report of the District Court for the year 1943.
The District Court for the Southern District of New York, during the year 1943, has continued to maintain its position as one of the most active and efficient courts in the United States. The number of cases filed in the District Court during the year 1943 was 1,234, as compared with 1,156 in 1942 and 1,089 in 1941. The number of cases disposed of during the year 1943 was 1,189, as compared with 1,101 in 1942 and 1,034 in 1941. The average number of cases disposed of per judge during the year 1943 was 118.9, as compared with 110.1 in 1942 and 103.4 in 1941. The average number of cases disposed of per judge per month during the year 1943 was 9.8, as compared with 9.1 in 1942 and 8.6 in 1941. The average number of cases disposed of per judge per day during the year 1943 was 0.32, as compared with 0.30 in 1942 and 0.28 in 1941. The average number of cases disposed of per judge per hour during the year 1943 was 0.013, as compared with 0.012 in 1942 and 0.011 in 1941. The average number of cases disposed of per judge per minute during the year 1943 was 0.002, as compared with 0.002 in 1942 and 0.002 in 1941. The average number of cases disposed of per judge per second during the year 1943 was 0.0002, as compared with 0.0002 in 1942 and 0.0002 in 1941.

Respectfully,
Commissioner of the District Court of Southern District of New York.

REPORT OF THE COMMISSIONER OF THE DISTRICT COURT OF SOUTHERN DISTRICT OF NEW YORK, FOR THE YEAR 1943.
Respectfully,
Commissioner of the District Court of Southern District of New York.

IN SENATE, January 11, 1944.
REPORT OF THE COMMISSIONER OF THE DISTRICT COURT OF SOUTHERN DISTRICT OF NEW YORK, FOR THE YEAR 1943.
The Commissioner of the District Court of Southern District of New York, in compliance with the provisions of the Act of March 3, 1907, Chapter 275, Section 1, has the honor to submit herewith the report of the District Court for the year 1943.
The District Court for the Southern District of New York, during the year 1943, has continued to maintain its position as one of the most active and efficient courts in the United States. The number of cases filed in the District Court during the year 1943 was 1,234, as compared with 1,156 in 1942 and 1,089 in 1941. The number of cases disposed of during the year 1943 was 1,189, as compared with 1,101 in 1942 and 1,034 in 1941. The average number of cases disposed of per judge during the year 1943 was 118.9, as compared with 110.1 in 1942 and 103.4 in 1941. The average number of cases disposed of per judge per month during the year 1943 was 9.8, as compared with 9.1 in 1942 and 8.6 in 1941. The average number of cases disposed of per judge per day during the year 1943 was 0.32, as compared with 0.30 in 1942 and 0.28 in 1941. The average number of cases disposed of per judge per hour during the year 1943 was 0.013, as compared with 0.012 in 1942 and 0.011 in 1941. The average number of cases disposed of per judge per minute during the year 1943 was 0.002, as compared with 0.002 in 1942 and 0.002 in 1941. The average number of cases disposed of per judge per second during the year 1943 was 0.0002, as compared with 0.0002 in 1942 and 0.0002 in 1941.

Edward A. G. Colls
Dir. Exam. by Mr. Blanchard.

- 6448 -

your jurisdiction ?

A Generally speaking.

Q And I believe a submission has been prepared for presentation to this Board relating to the present consumption of gas and your estimate for future requirements ?

A That is correct.

Q As well as certain comparative figures designed to show your costs with and without the load ?

A That is correct.

Q Then I think the submission had better be marked now.

THE CONSOLIDATED MINING & SMELTING
COMPANY OF CANADA LIMITED SUBMISSION
MARKED EXHIBIT 176.

There are certain amendments to the submission as originally distributed as to Page 4 and the schedules attached and the only difference I think in the schedules sir, is that the year 1944 has been dropped and then in figures relating to the B. A. transmission costs on sheet #1, costs have been reduced by \$12,000.00 in each figure which is the amount exhibited by Madison as to the cost of transmission. I think those are the only ones. Will you please read your submission ?

A THE CONSOLIDATED MINING AND SMELTING COMPANY OF CANADA, LIMITED
SUBMISSION TO THE NATURAL GAS UTILITIES BOARD IN THE
MATTER OF NATURAL GAS CONSUMPTION AND ESTIMATED FUTURE
REQUIREMENTS OF ALBERTA NITROGEN PRODUCTS LIMITED

1. INTRODUCTION

The Consolidated Mining and Smelting Company of Canada, Limited, through its subsidiary Alberta Nitrogen Products Limited, is presently engaged, as agent of the Crown in right of Canada, in operating certain chemical plants, usually called "the Nitrogen plants", located at

Edward A. G. Colls
Dir. Exam. by Mr. Blanchard.

- 6449 -

Turner Siding, south of Calgary. The products of the operation are ammonia and ammonium nitrate. Approximately one-third of the output of ammonia is used in the manufacture, at Calgary, of ammonium nitrate in fertilizer form.

I note that Mr. C. V. Myers of the Calgary Herald in last Saturday's edition stated that the plants were operated on fixed fee which is incorrect.

The remaining two-thirds of the output are shipped to other points for further processing, the major portion going to the Company's chemical plants at Trail, British Columbia.

The Nitrogen plants are the property of the Crown in right of Canada. They are operated, under agreement, by Alberta Nitrogen Products Limited for war and kindred purposes, and on a no-fee basis. The Company has no financial interest in the Nitrogen plants, but has certain optional rights of purchase, by meeting the highest competitive bid, exercisable if and when the Nitrogen plants are offered for sale.

No arrangement has yet been made in this connection.

There is not yet any certainty that it will eventually become financially interested in them.

The Company has been requested, and is willing, to make a statement of present and estimated future gas consumption, not only because of its optional rights of purchase, but because such a statement may be in the interest of all concerned, for at least two especial reasons: (1) the gas consumption of the Nitrogen plants, which approximates twenty-five per cent. (25%) of the total consumed annually both

Edward A. G. Colls
Dir. Exam. by Mr. Blanchard.

- 6450 -

by all other local industries and by the City of Calgary, has an important bearing on gas costs and, therefore, on prices to the consumers, and (2) a continued operation of the Nitrogen plants will have a critical bearing on the future of the chemical industry and industry generally in Alberta.

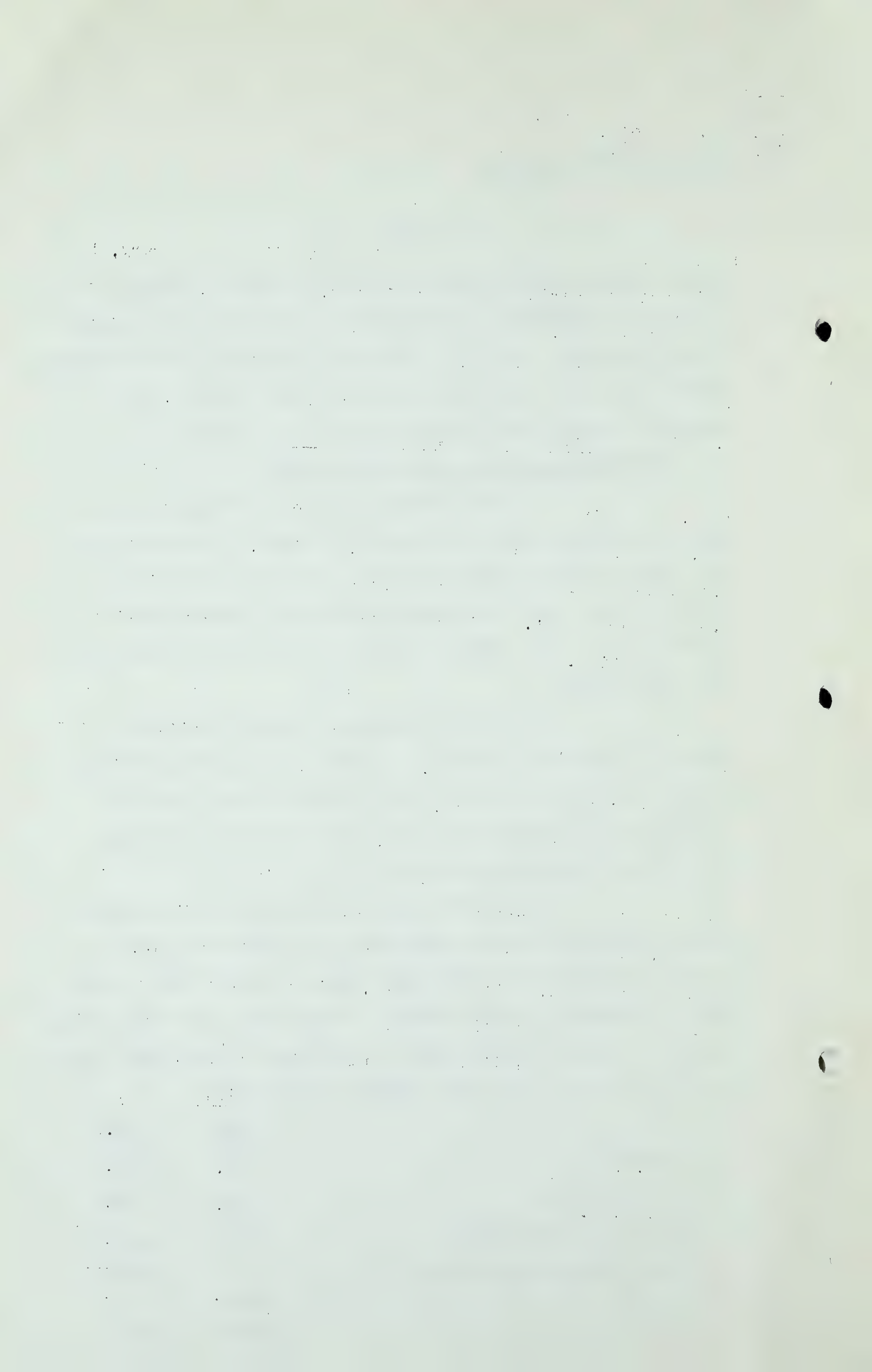
2. CONSUMPTION AND ESTIMATED REQUIREMENTS

Gas consumption in the Nitrogen plants in 1945, according to the billings of the Canadian Western Natural Gas, Light, Heat and Power Company, Limited, amounted to 3,301,811 MC.F. or an average steady daily consumption of 9.0 million cu. ft. This is indicative of gas consumption at full operation.

It is reasonable to expect that the Nitrogen plants will operate at nearly full capacity for from three to four years to come. The probabilities thereafter are impossible to estimate, because of obscurity resulting from several developing factors.

The following table gives the percentage distribution of fertilizer shipments by Alberta Nitrogen Products Limited for the calendar years 1944 and 1945, broken down to Canadian, British Empire, United States and Possessions, and other foreign destinations. Permission to use these figures has been given by Allied War Supplies Corporation.

	<u>1944</u>	<u>1945</u>
Canadian	5.0%	13.9%
British Empire	46.4%	2.2%
U. S. A. & Possessions	48.6%	44.0%
Other foreign destinations	-	39.9%
	<u>100.0%</u>	<u>100.0%</u>



E. A. G. Colls,
Dir. Exam. by Mr. Blanchard.

- 6451 -

These figures show that a large proportion of the present output is now sent to the United States. There it is in direct competition with ammonium sulphate, Chilean sodium nitrate and an ever increasing amount of ammonium nitrate produced by American Government and privately owned plants which are at present being converted to the production of fertilizer. The impact on the market of the production of these converted plants has not yet been felt. It will also be noted that the figures also show that in 1945 almost 40% of the output of Alberta Nitrogen Products Limited went to "other foreign destinations". In fact, 39% of the total output went to Western Europe, principally France and Holland. Western Europe was, for many years prior to the war, a heavy exporter of nitrogen. The capacity of Western Europe to export has only temporarily been disturbed. Unquestionably, when the present emergency is over, the requirements of France, Holland and other European countries will again be supplied from European sources.

Now we come to the

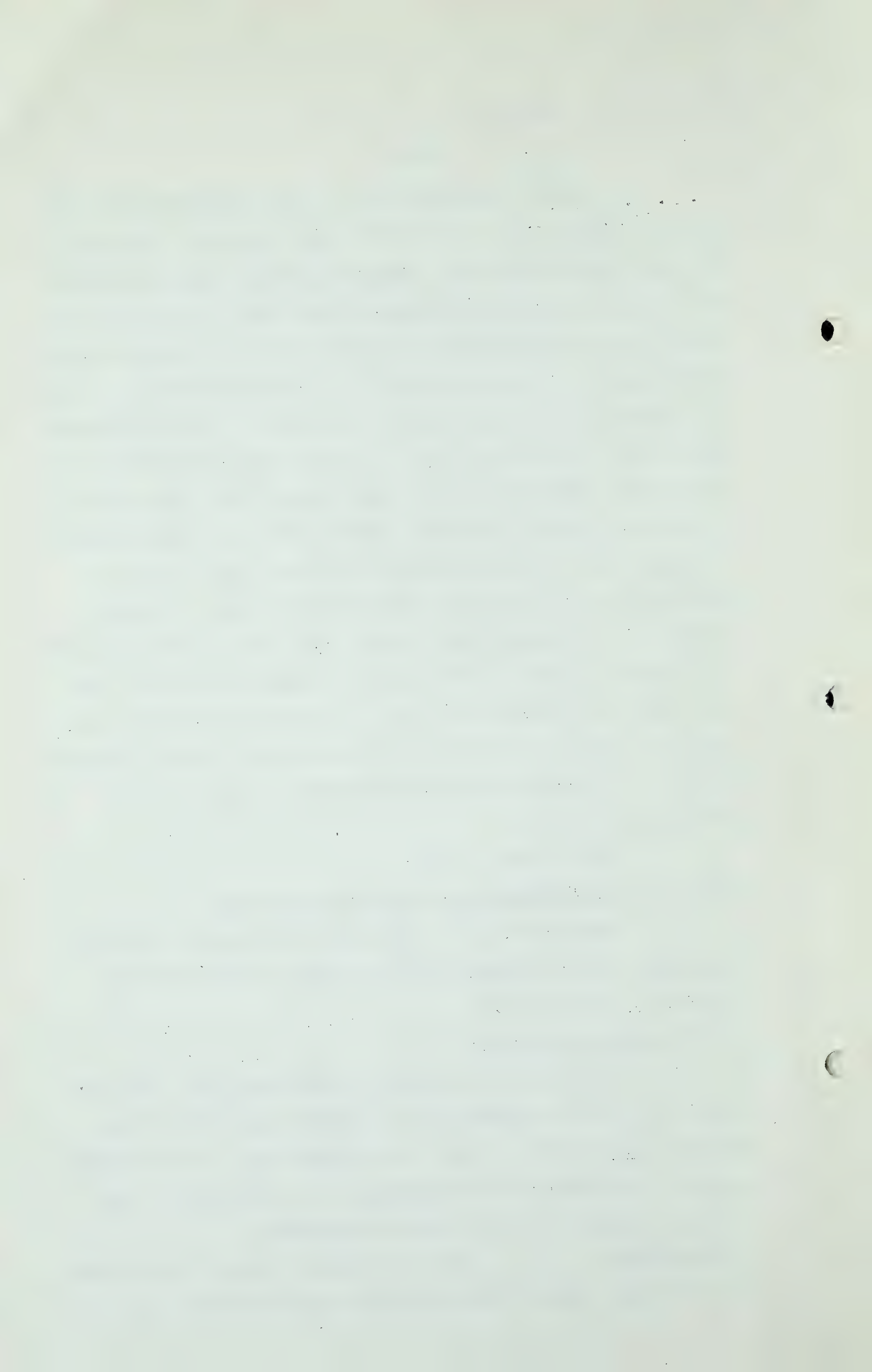
EFFECT OF GAS CONSUMPTION AT THE NITROGEN PLANTS

Certain important benefits accruing as a result of continued gas consumption by the Nitrogen plants may be summarized as follows:-

(a) To the Well Operator

The effect of the gas consumption at the Nitrogen plants is that the proportion of produced gas sent to the market is increased. Under the proposal made by the Madison Natural Gas Company to the Commission, in their report No. M-16, I am sorry I have not got the exhibit.

MR. BLANCHARD: That, of course, has not been put in as an exhibit, sir, I think Mr. Colls has reference to page 6



7-1-5
E. A. G. Colls,
Dir. Exam. by Mr. Blanchard.

- 6452 -

of M-16, and that is the proposed contract between Madison and the producers. I think it has reference to this subject, what Mr. Colls may say has reference to this provision in Subsection (c) of Section 5 under the heading of Price, about the middle of Page 6:

" The buyer shall purchase from and pay the seller as the purchase price thereof 2 cents for each thousand cubic feet of the said residue gas which may be sold by the buyer for domestic or industrial purposes, and one-half cent for each thousand cubic feet of the said residue gas which may be conserved or repressured."

That is the reference.

MR. CHAMBERS: And then those agreements have reference also to such other price as the Board may fix.

MR. BLANCHARD: Oh yes.

MR. CHAMBERS: In other words, it is not the Madison proposal as to the 2 cents being the price.

MR. BLANCHARD: Oh yes, that is covered by what Mr. Colls will say now.

A Under the proposal made by the Madison Natural Gas Company to the Commission, the well operator would continue to receive 2 cents per MCF, or whatever price the Board may fix, for the gas consumed by the Nitrogen plants instead of $\frac{1}{2}$ cent per MCF if this gas were not sold but repressured.

(b) To the Gas Consumer.

We have prepared a schedule indicating the effect of the Nitrogen Plants' gas consumption on the unit costs of the various operations in terms of sales volume. The figures given are based on those contained in the accounting submission of Winspear, Hamilton and Anderson, (Exhibit No. 124, Volumes 1

E. A. G. Colls,
Dir.Exam.by Mr. Blanchard.

- 6453 -

and 2) and the pertinent references are indicated. It is recognized, of course, that the figures used are subject to adjustment in the light of subsequent evidence, but it is submitted that unit cost comparisons with and without the Nitrogen plants' gas consumption are indicative of the overall benefit to the gas consumers by reason of the additional market volume. Following the premises adopted in Exhibit No. 124 and the reservations stated therein, we have included the proportion of gas gathering costs on a volumetric basis but have excluded any repressuring costs.

EXPLANATION OF THE SCHEDULE

Sheet 1 - Total Operational Costs

We have shown the total estimated costs of gathering, residue transmission, and scrubbing operations for each of the years 1945 to 1948 inclusive.

These costs were arrived at by the addition of the operating costs of each operator as submitted on the referenced schedules in Exhibit 124. Each of the five alternative capitalizations and rates of return as employed by Winspear, Hamilton and Anderson were utilized to arrive at five total costs.

Sheet No. 1 is headed with the explanatory heading "Summary of Estimated Gas Gathering, Transmission and Scrubbing Costs per Winspear, Hamilton and Anderson submission (Exhibit No. 124), B.A. Gas Utilities Limited and Madison Natural Gas Company Limited."

Sheet 2 - Unit Costs per "Sales" Volume

On this sheet of the schedule we have shown the unit costs per marketable volumes of each of the operations represented in Sheet 1. Further, for the years 1946 to 1948

E. A. G. Colls,
Dir.Exam. by Mr. Blanchard.

- 6454 -

inclusive, we have shown the comparative unit costs of these operations with the Nitrogen Plants' gas consumption added as marketable sales in Columns 5, 6 and 7.

The Nitrogen Plants' gas consumptions for the years 1946, 1947 and 1948 have been taken as equal to the gas consumption for 1945, namely, 3,156,700 MCF as 14.4 pounds per square inch absolute, and 60° F. or 3,301,811 MCF at 13.5 pounds per square inch absolute and 50° F. For the year 1946, only half of this volume has been added to the indicated marketable volume since previous evidence before the Board is based on the premise that the Nitrogen plants' consumption would cease in mid-1946.

Sheet 3 - Recapitulation

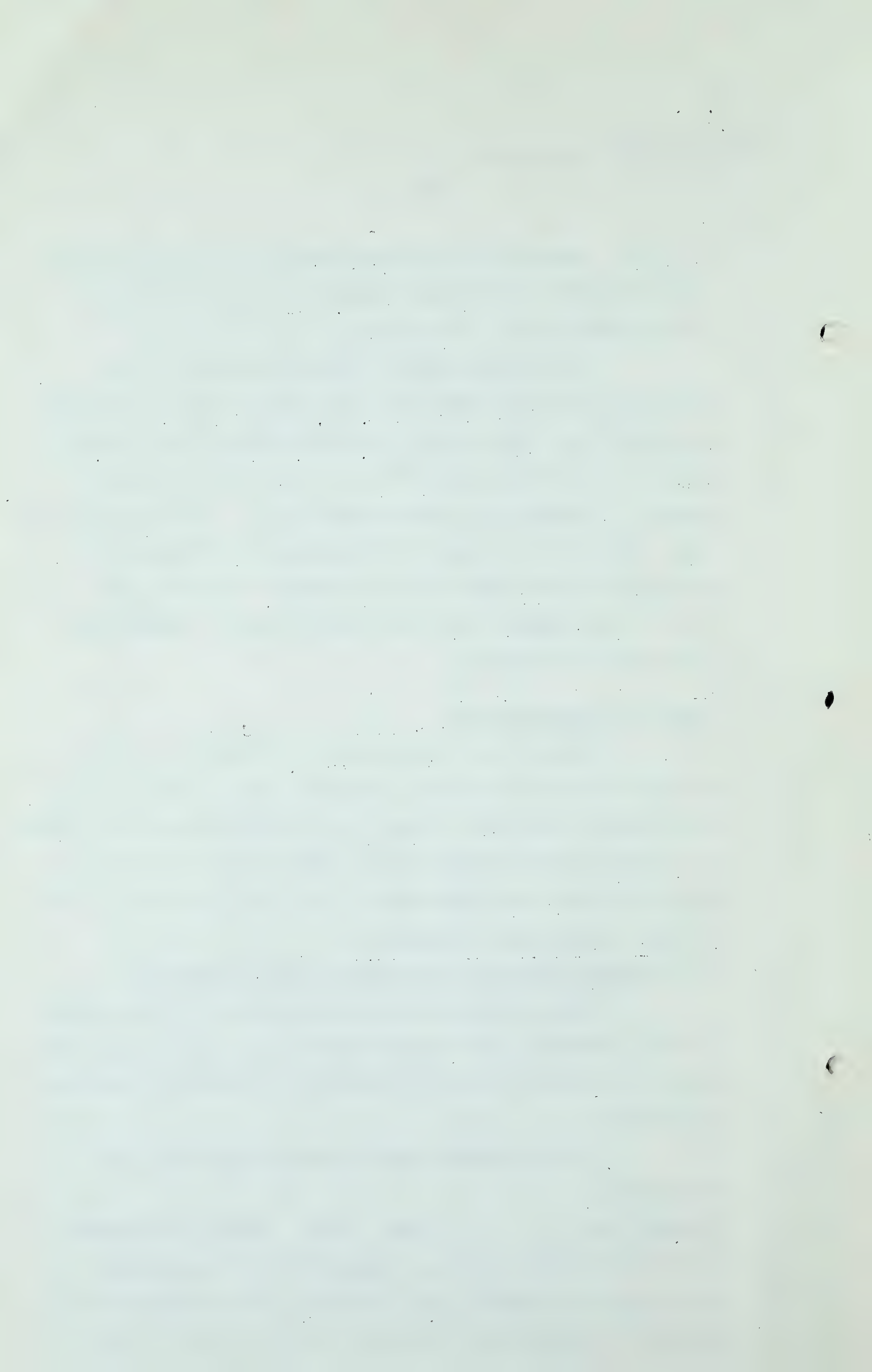
Sheet 3 is a recapitulation of Sheet 2 to show the sum of the unit cost for gathering, residue transmission and scrubbing with and without the gas consumption of the Nitrogen plants and the differences in cents per sales volumes as well as the per cent reduction in total cost by reason of the Nitrogen plants' gas consumption.

(c) Bonofits accruing to the Repressuring Operation

Although the gas consumption at the Nitrogen Plants reduces materially the volume of gas that is to be repressured during the summer months, we are not in a position to evaluate this effect.

That reference could be made to Madison's gas submission.

MR.BLANCHARD: I was just going to interpose here, Mr. Chairman, and say I spoke to Mr. Stevens-Guille just before the opening, and I have not had an opportunity to discuss the matter with Mr.Colls. M-7(a), 1946 to 1948, I



E. A. G. Colls,
Dir.Exam. by Mr. Blanchard.

- 6455 -

think is Exhibit 74, if I am not mistaken. It sets out the capital investment for compression units, compressors, and was assumed that part of that compressor equipment would be required for the repressuring to be done during those years, but it is doubtful whether any additional compressors would be needed for repressuring, assuming the Nitrogen load to go off, and perhaps Mr.Stevens-Guille can inform us about that later.

MR. CHAMBERS: Would you like a statement from Mr. Stevens-Guille now?

MR.BLANCHARD: It mea s that in 1947, for half of 1946 and for 1947, '48, '49 and possibly 1950, if the prospects are realized of the continued operation of the plant, that there will be about three billion cubic feet less to repressure.

A IMPORTANCE OF THE NITROGEN PLANT TO THE COMMUNITY

The importance of the Nitrogen plants to the community and to the Province is indicated by the following facts applicable to 1945. The plants employed 367 persons. The yearly payroll was \$748,995.40. The average yearly wage per daily-paid employee was \$1,963.80. The gas bill was \$231,126.77. The power bill was \$427,260.06. Freight bill paid was \$1,703,000.00.

CONCLUSION

It is apparent that the operation of the Nitrogen plants has a unique and critical bearing on the factors involved in the cost of natural gas to all consumers, and the future of this large and important basic industry and related industries will be affected by the decision of this Board.

MR.BLANCHARD: There are one or two comments that might perhaps be made on the figures contained in the Schedule to the submission, and the first is that it is assumed that all

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

1911

E. A. G. Colls,
Dir. Exan. by Mr. Blanchard.

- 6456 -

gathering costs will be assessed to Madison. That is the assumption. Now, if others are to bear part of those gathering costs, as for instance the absorption plant or other interests, then it means that the figures will have to be amended accordingly. I mean, these are simply a formula for comparative purposes. For instance, if 50% of the gathering costs are to be borne by other parties than the Madison Company, then the figure given, I will just illustrate it, Sir, the figure given, let us take 1948 on Sheet No. 3, and taking Mr. Hamilton's alternative basis, C-2, that is at the bottom of the page, under 1948 if other parties were to bear 50% of the gathering costs, I am taking 50 simply as an example, then gathering would be 2.2 instead of 4.4 in those final two figures there, and in summary of those figures it would reduce the total of 8.15 to approximately 6 cents.

(Gd. to page 6457).

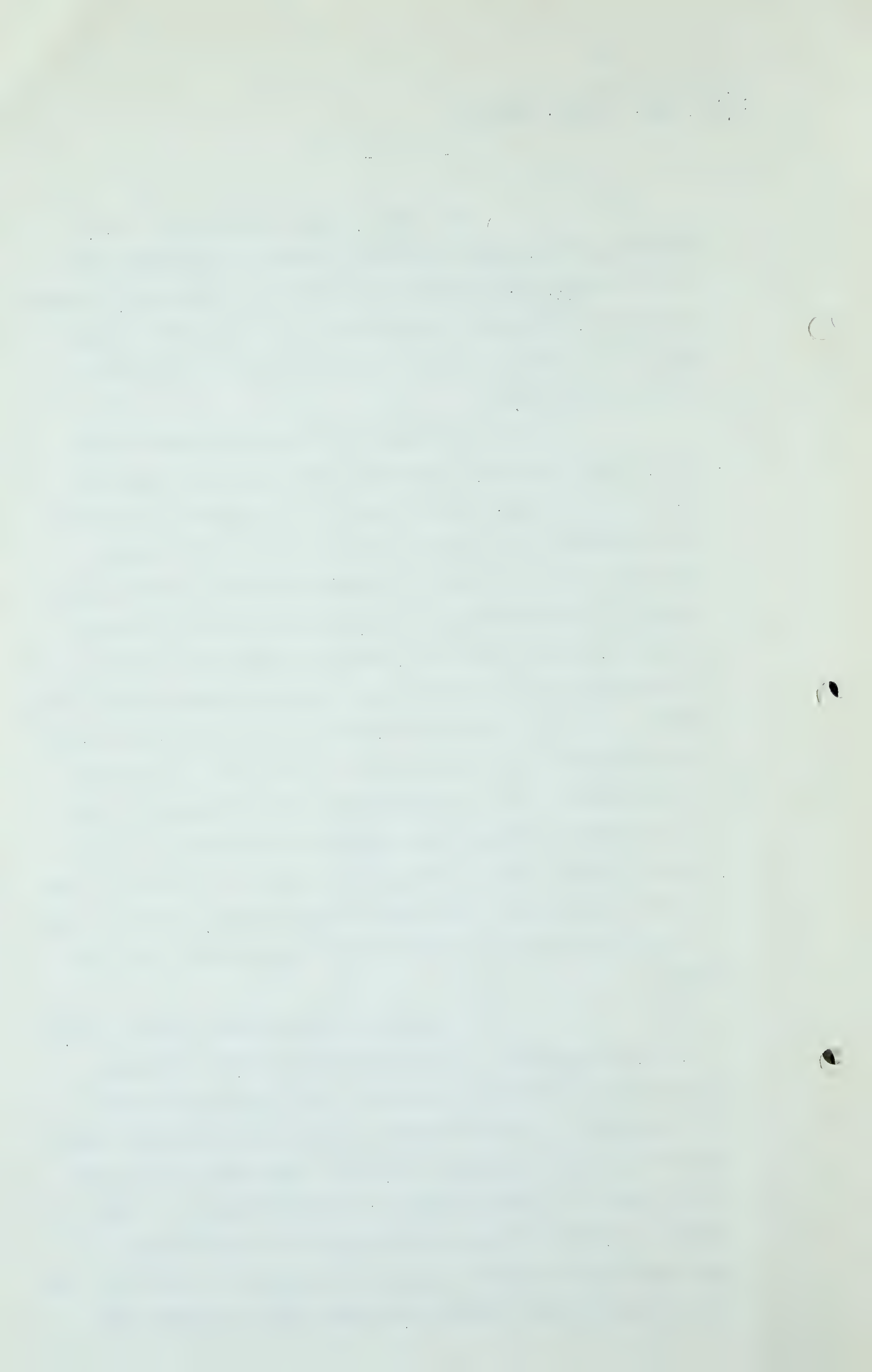
-1 10 A.M.
E. A. G. Colls,
Dir. Exam. by Mr. Blanchard.

- 6457 -

And then in the corresponding figure, assuming the Nitrogen Plant to continue to operate, there would be deducted from the 6.14 cents approximately 1.1 cent so that the comparison remains but as I say these figures are on the assumption that Madison is bearing the entire costs of gathering.

Then repressuring has not been taken into account as the witness has said and it is assumed or if all the repressuring is borne by the market, as I think was suggested by Dr. Katz, if I am not mistaken, in his evidence, then there would be added to these figures approximately the same amount as is fixed for the cost of transmission because I think Mr. Hamilton worked out that the cost of repressuring and the cost of transmission was approximately equal. So that to the total figure - I am just taking again the alternative basis C2 on Sheet 3 for 1948, in the event of the market, that is the dry gas market, bearing the cost of repressuring there would be added approximately 1.1 cent and then there would be added to the figure in Column 7, that is with the Nitrogen load there would be added .8 cents which is roughly equivalent to the cost of transmission as shown there.

Now perhaps I should make another remark. I am not endeavouring to give evidence but Mr. Colls has asked me to direct the attention of the Board and counsel to the matter. The next matter is that these figures assume that the direct operating costs will remain constant. Now they probably do not but they are approximately so. That might be a matter that counsel desire some information on and possibly the witness is not in a position to give it, not having studied the submissions. But roughly speaking the

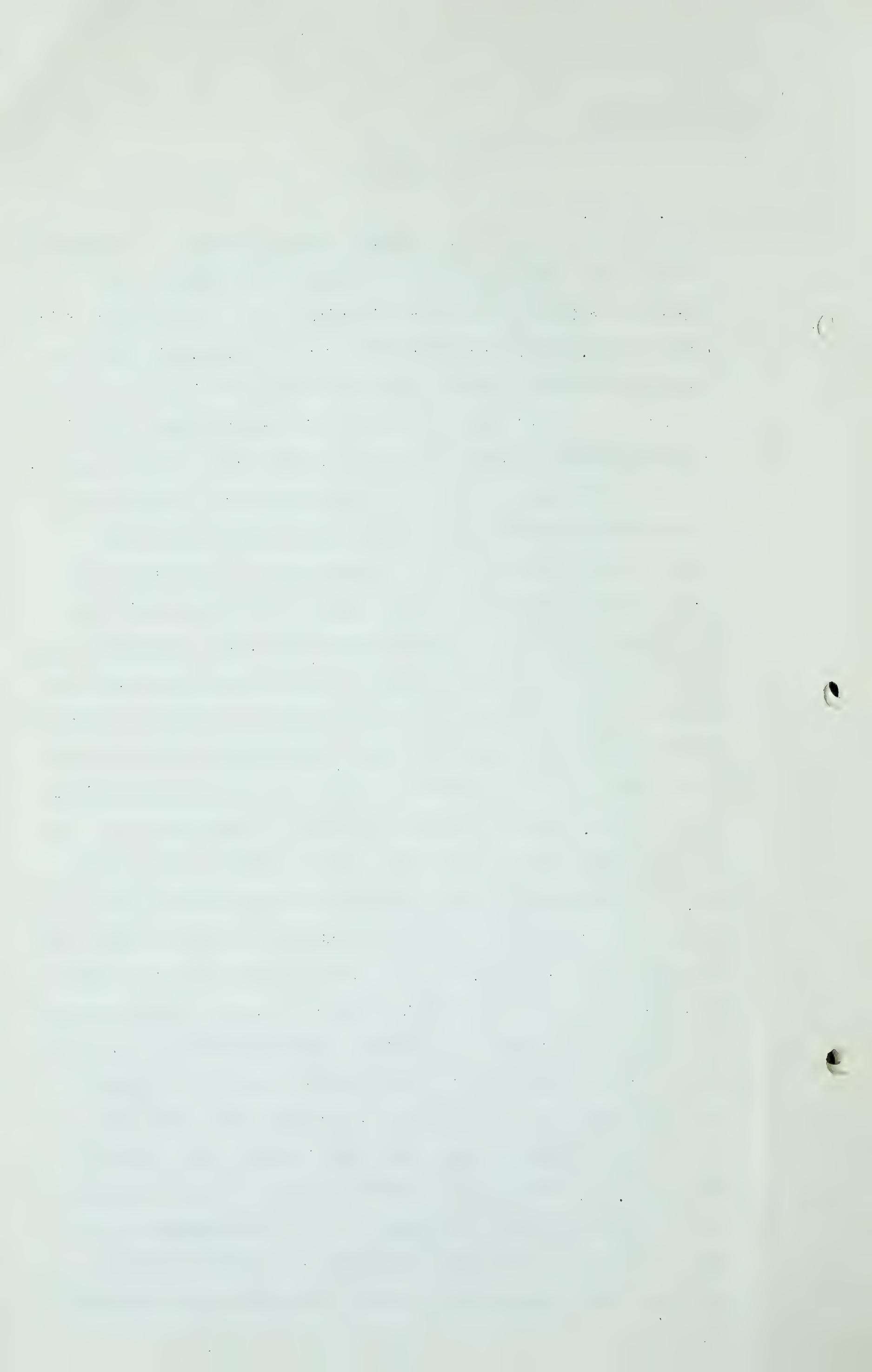


E. A. G. Colls,
Dir. Exam. by Mr. Blanchard.

- 6458 -

direct operating costs do remain almost constant, irrespective of the load. There are such things as chemicals for the scrubbing plant that may vary with the load. Generally speaking the submissions of Madison in M-9 indicate that the load does not affect the direct operating costs to any extent.

Now the matter of depreciation. If the Nitrogen Plant remains on over the next three or four years as anticipated at present the depreciation will increase in direct proportion to the load and that is not taken into consideration here. But the depreciation, I would like to point out sir, taking again Mr. Hamilton's figures C2, the depreciation amounts to about 12% of the total operating cost. And assuming the Nitrogen Plant to utilize approximately one-third of the load then, that is 3 million as against 9 million anticipated, anticipated without them, then the variation in the figure would be about 4% in these units costs as applied to the units costs in Columns with the Nitrogen load on. It will not affect the others. But that is offset, sir, by this that the depreciation, the reduction in the rate base will be very much accelerated if this load remains, compared with that which was anticipated and if it remained on during the life of the field for instance it would reduce, it would mean that the life of the field would be perhaps two-thirds of that which is predicted assuming the Nitrogen Plant is taking its part of the load. Now that means that in the total sum paid for return of investment over the whole period of the life of the field the total payment for the return of the investment will be greatly reduced by reason of the acceleration in the reduction in the rate base. So that it more than offsets the additional depreciation figure year by year by virtue of



E. A. G. Colls,
Dir. Exam. by Mr. Blanchard.
Cross-Exam. by Mr. Chambers.

- 6459 -

this increase in load. I thought, sir, that these matters should perhaps be called to the attention of the Board and counsel. I think they do not affect the value of these figures as shown here.

MR. FENERTY: I have no questions.

MR. STEER: No questions.

.....

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. CHAMBERS.

Q Mr. Colls, is the product now being turned out by this Plant what is known as granular ammoniumnitrate?

A Yes.

Q And it is being used for fertilizer purposes?

A Entirely.

Q Now prior to the construction of this Plant and its conversion to the manufacture of fertilizer, what other sources were there in Canada of commercial fertilizer of the same type now being turned out by this Plant?

A No sources whatever.

Q Fertilizer of some sort, as I understand it, was produced at Trail prior to the war?

A Yes, that is correct.

Q And was that fertilizer turned out at that Plant during the war and up to the time

A At Trail?

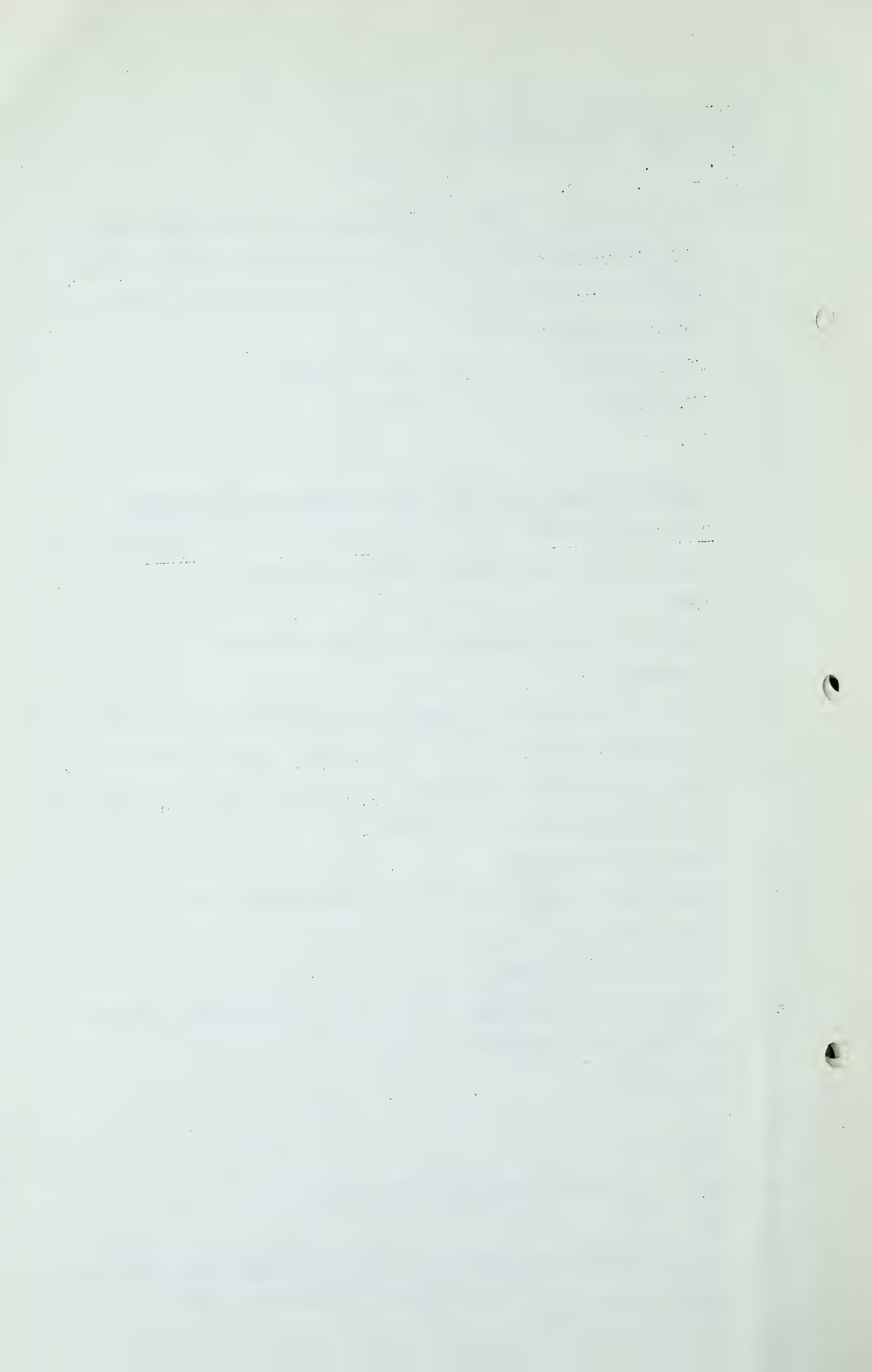
Q Yes.

A Yes.

Q And it is turning out fertilizer now?

A Yes.

Q Am I right in this that other than the commercial fertilizer turned out in Plants of the type of this, the chief source of nitrate for fertilizer was Chile?



E. A. G. Colls,
Cross-Exam. by Mr. Chambers.

- 6460 -

A That is probably correct.

Q There is a plant at Welland at the moment. Does that manufacture fertilizer?

A I do not think I am in a position to say what that plant is doing at the present time.

Q I gather from your Report, which is Exhibit 175, that this plant and the Trail plants combined

MR. BLANCHARD: That is Exhibit 176.

Q MR. CHAMBERS: 176, I am sorry are capable of turning out far more commercial fertilizer than the Canadian market can absorb.

A That is very true.

Q Substantially in excess of the requirements of the Canadian market?

A Enormously.

Q Am I right in this, that the Consolidated Mining & Smelting Company of Canada operated this plant and now operate this plant under an arrangement with the Federal Government?

A As Agent of His Majesty.

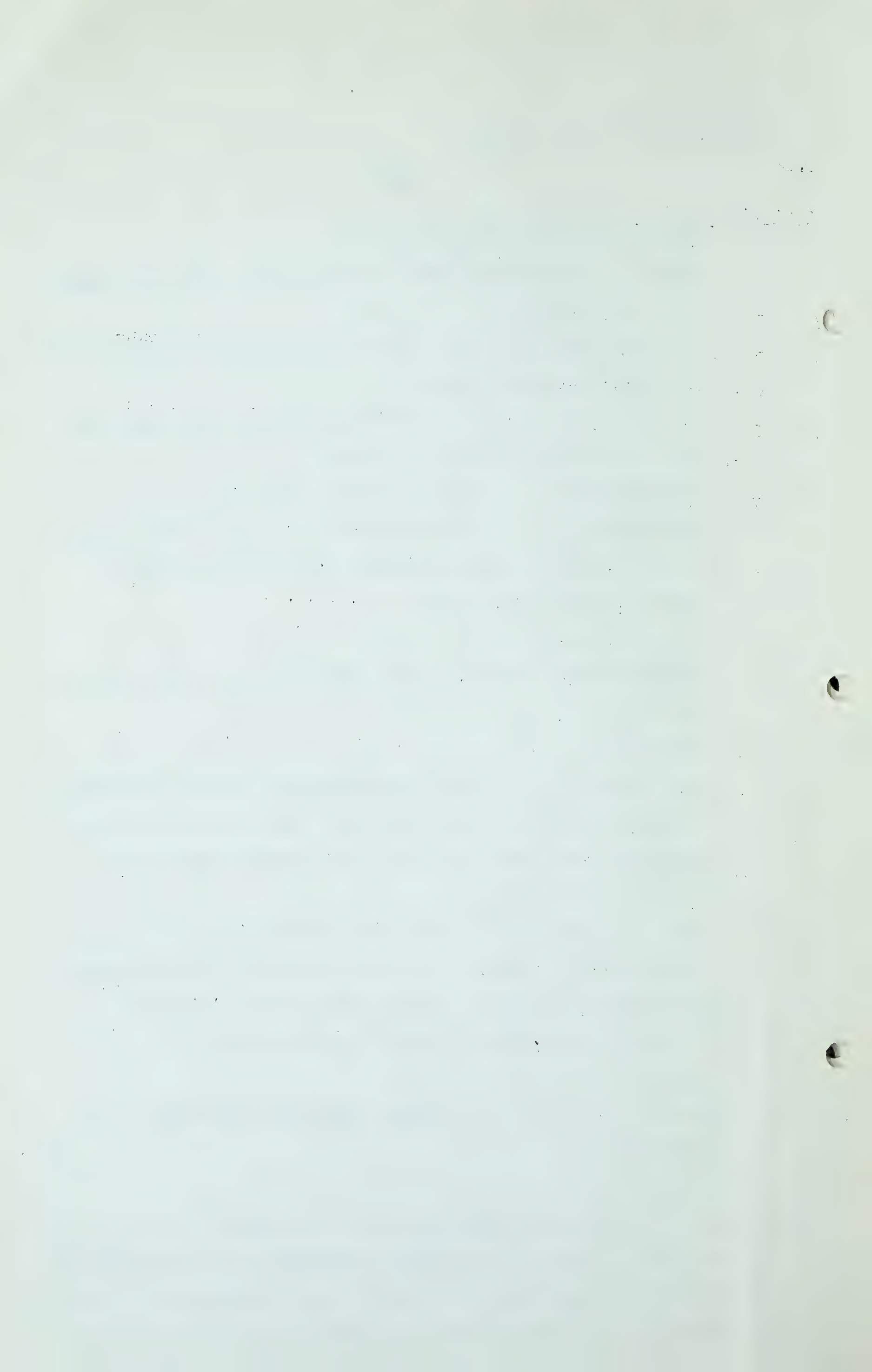
Q Yes. Am I right in this that your company the C.M. & S. is interested here and is presenting this Brief not merely by reason of its being the present operator but you may possibly be interested in acquiring this Plant?

A Possibly.

Q And the C.M. & S., your Company, owns and operates a Plant at Trail?

A Yes.

Q And it would be reasonable to assume, I take it, that whether or not your Company would be interested in acquiring this Plant would depend on what it would cost you as to its operating and other costs of the Plant in the event of you



E. A. G. Coll,
Cross-Exam. by Mr. Chambers.

- 6461 -

acquiring it?

A That would be a reasonable conclusion once the Plant was offered to the Consolidated for purchase.

Q As I understand it, the costs of turning out a ton of fertilizer or however you measure the quantities is made up of several items, not only in this business but in any business, one of which is the capital charges, and by capital charges I mean depreciation, income tax and return on investment?

A Yes.

Q That is one important item?

A Yes.

Q And then of course wages, I take it, form another substantial item?

A Correct.

Q Now other than capital charges and wages, what items of cost would enter into the operation of this Plant. First of all there would be the gas that is necessary, is it not?

A All the raw materials used.

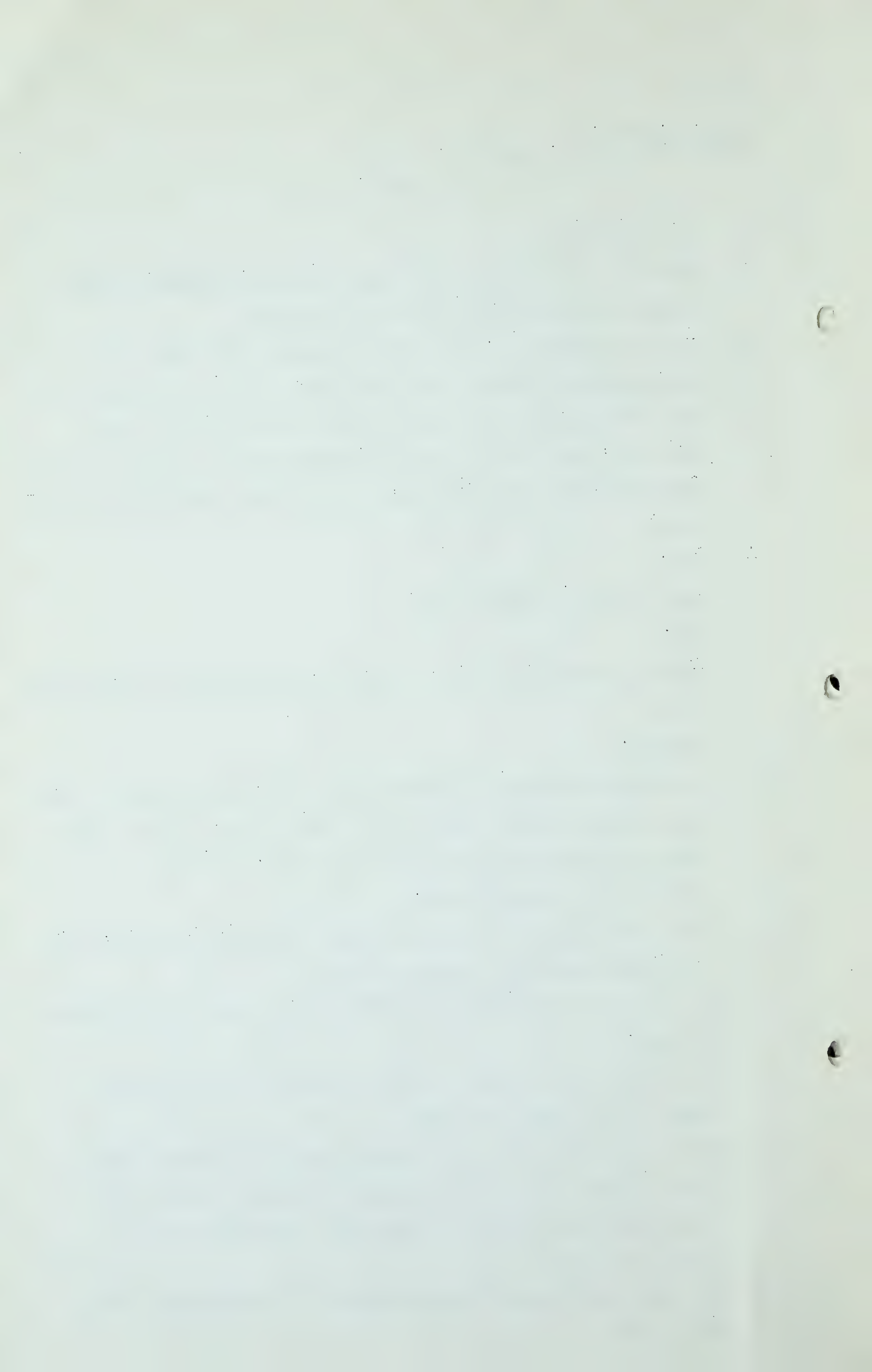
Q What else? Are there any other raw materials than gas, than the natural gas from Turner Valley?

A I would say a considerable number of raw materials of various natures.

Q I mean are they larger or less or are they comparatively small as compared with gas?

A Well I think probably I am not at liberty to develop that reply in that it is no great work of imagination to break down the cost of making the product, which I am not at liberty to give.

Q But the costs of the electric power is a substantial item, is it not?



C-1-1 10.15 A.M.

E. A. G. Colls,
Cross-Exam. by Mr. Chambers.

- 6462 -

A That is one of the raw materials.

Q And the cost of electric power is substantially greater than the cost of the gas at present-day prices, is it not, is that not so?

A Are you referring

Q To this Plant here.

A In the fertilizer plant.

Q Yes?

A I do not think I can answer that.

Q I am not pressing you but I just want to get it clear for the purposes of the record, whether you have not the information or as a matter of policy you do not want to answer it at the moment?

A That is correct.

Q The latter is the case?

A Yes.

Q Then another item of costs, as I understand it, and when I talk about costs I mean cost to the man who is going to use it, as freight?

A Yes.

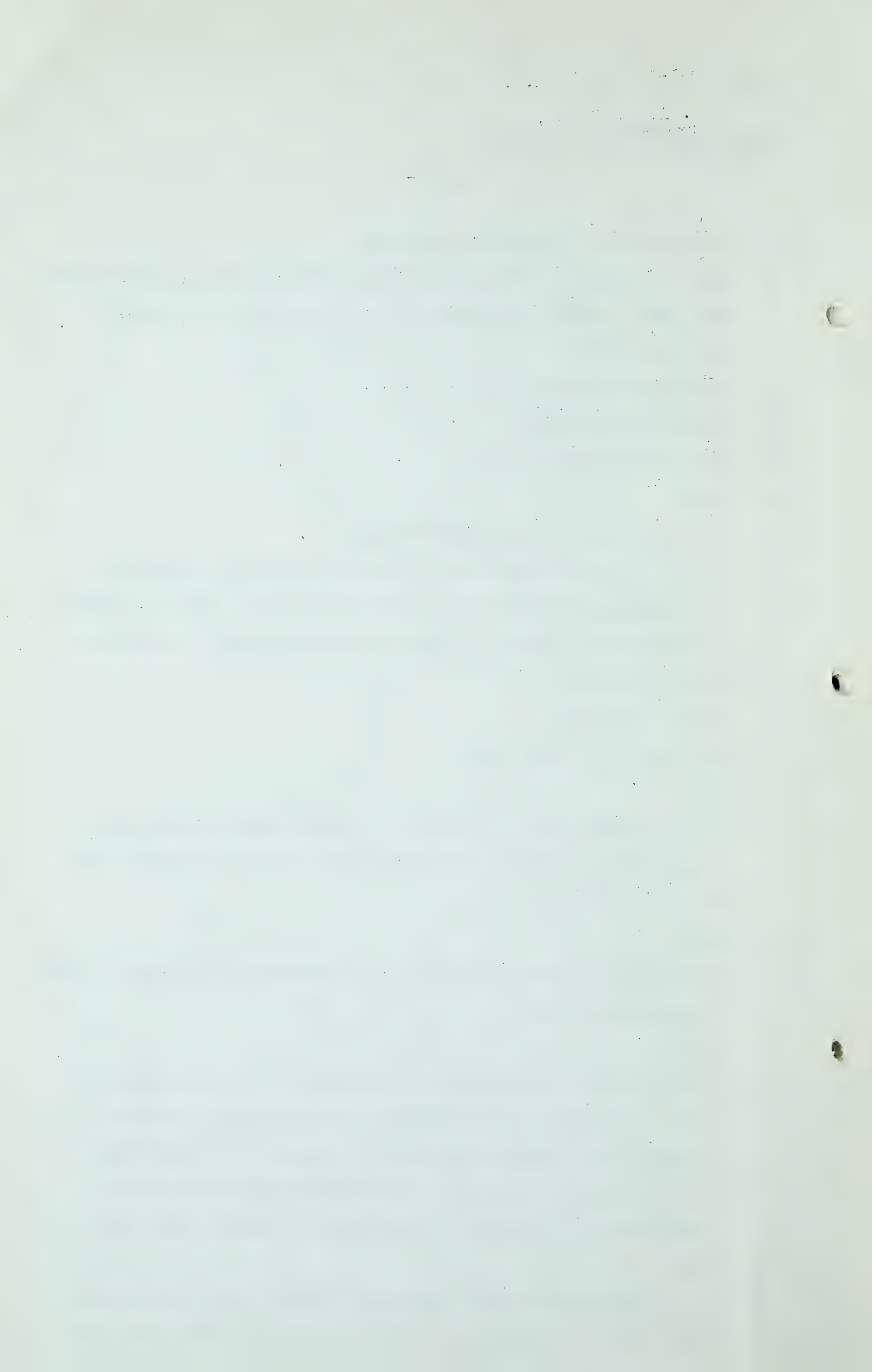
Q For hauling it from this Plant to wherever it is going to be marketed for use?

A Yes.

Q Now then it is reasonable to suppose, I take it, that any party going into this business or acquiring the Plant as a commercial proposition would be interested in and their decision would depend to a considerable extent on these items which we have been discussing in general here now?

A Yes.

Q As I understand it, Mr. Colls, this Plant, this particular Plant here at Calgary, is the last word in design, type of



E. A. G. Colls,
Cross-Exam. by Mr. Chambers.

- 6463 -

construction and methods and so on, for the manufacture of this particular type of product, is it not?

A A very highly efficient Plant.

Q Yes. What percentage of the Canadian output of commercial fertilizer is produced at this particular plant, roughly?

A Of all fertilizers?

Q Of all commercial fertilizers in Canada?

A Not having the figures here, you understand, I am only guessing rather?

Q Yes?

A But it does not produce probably more than 15%.

Q MR. HARVIE: That is of the Canadian market?

Q MR. CHAMBERS: Oh yes, that was my question.

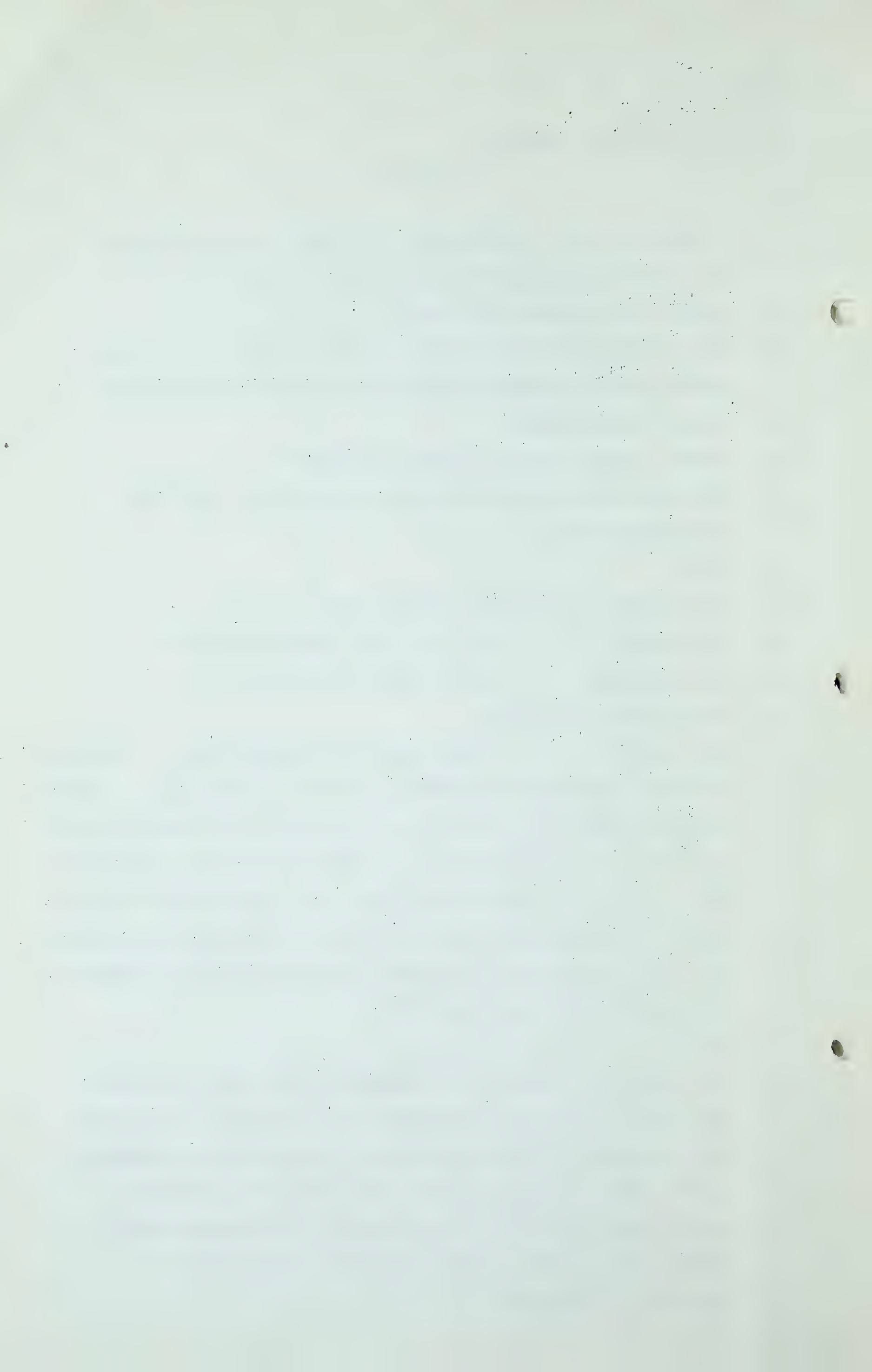
A Of the Canadian market.

Q MR. CHAMBERS: If this Plant were operated as a commercial, private commercial undertaking, would it be feasible to provide in the contract for the supply of power to the Company that it would be, - not power but gas, - that it would be, and what I have in mind, as a secondary basis, and here is what I have in mind, supposing in the winter months when we have extremely cold weather here and the domestic market taxes the system, the gas system to its capacity?

A Yes?

Q And therefore from either a break in one of the lines or some other unpleasant occurrence, the gas system, the overall gas system, cannot or could not supply the requirements of this Plant and the plants of the other industries in Calgary and the Calgary house demand, now probably under circumstances such as that, somebody must go short.

A We have on occasions.



C-1-3

E. A. G. Colls,
Cross-Exam. by Mr. Chambers.
Cross-Exam. by Mr. Harvie.

- 6464 -

Q Beg pardon?

A We have on occasions.

Q Yes, but what I am getting at is, in the contract with your Company or whatever Company operates the Plant for the supply of gas, would it be feasible or have you in mind that there could be a provision in that contract whereby in the case of shortage your plant would be reduced first?

A We have not given that subject any thought, Mr. Chambers.

Q Can you tell me or are you at liberty to tell me or are you willing to tell me what percentage approximately of the total cost of the product manufactured in this Plant is represented by the cost of gas, firstly?

A I am afraid I am not at liberty to answer that question.

Q I see, and that is all.

THE CHAIRMAN: Mr. Harvie?

.....

CROSS-EXAMINATION BY MR. HARVIE.

Q Will you tell me the capacity of the Plant for the product which you are manufacturing?

A In round numbers shall we say 70,000 tons of ammonium nitrate per year.

Q And how about ammonia?

A Approximately the same figure.

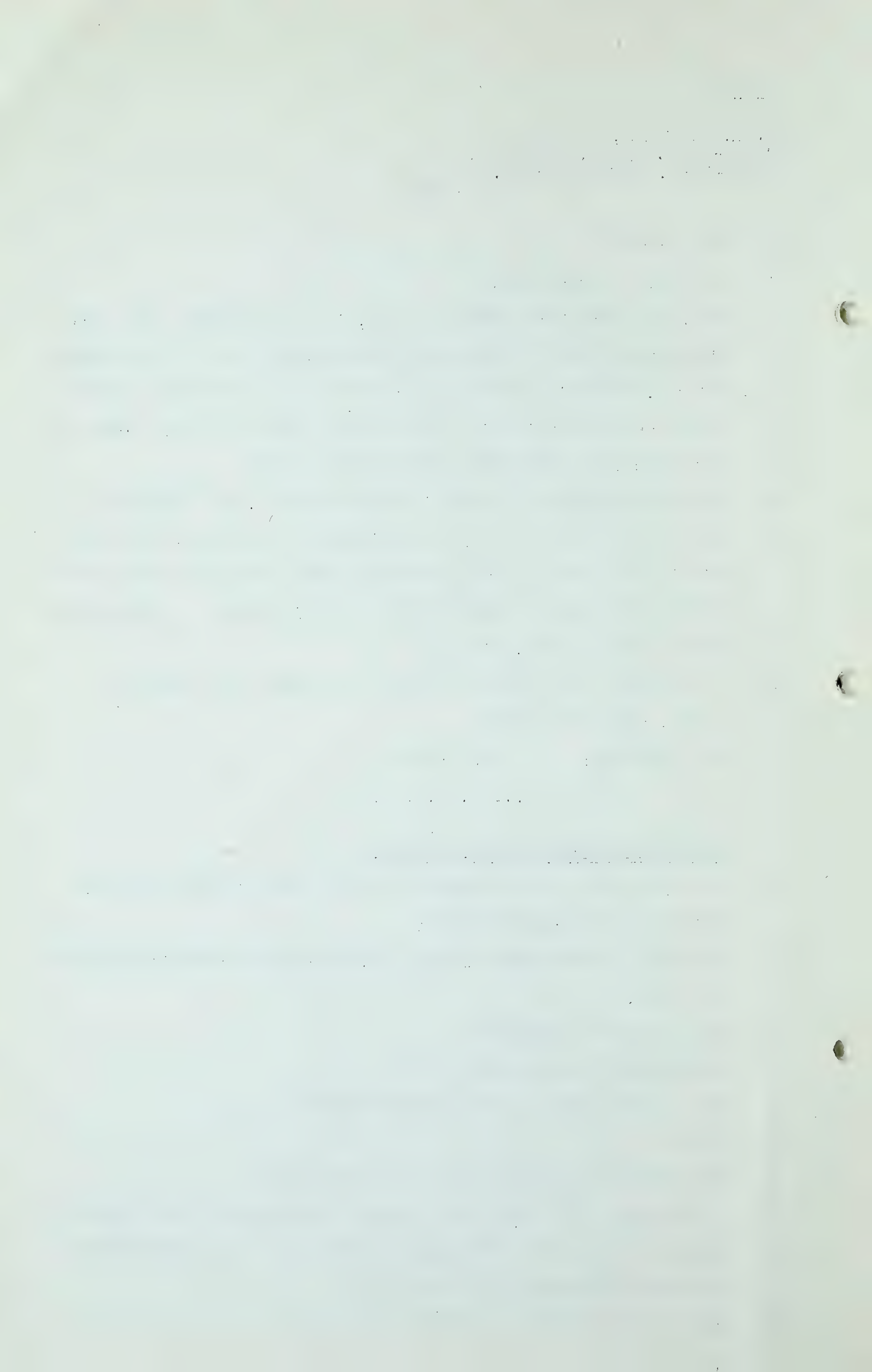
Q What is the value of the ammonia today?

A Where?

Q Wherever you give it a value, at the Plant?

A I think you will find that you can buy ammonia from Dupont which is one of the few published figures, for approximately sixty or sixty-five dollars a ton.

Q And is that the figure which you adopt?



E.A. G. Colls,
Cross-Exam. by Mr. Harvie.

- 6465 -

A No.

Q Is that for ammonia or for ammonium nitrate?

A That is for straight ammonia. That is the quoted figure, quoted by Dupont, the retail figure.

Q And what is your figure, are you free to tell us that?

A No, I am afraid not.

Q What about ammonium nitrate, what is the quoted figure for that?

A I am not sure that I have that, no, I am sorry, I have not that figure with me but it could be obtained from any chemical marketing journal.

Q Generally, do you know where it runs, as an approximate figure?

A I would not hazard a guess because I am only familiar with large tonnage figures.

Q Is it more or less than ammonia, would it command a better price?

A Very comparable with ammonia.

Q So \$65.00 a ton might not be too far out?

A I would not hazard a guess, to be that close.

Q I think you told Mr. Chambers that you are not free to disclose the quantities of raw materials, are you free to tell us what other raw materials, regardless of quantity, you use?

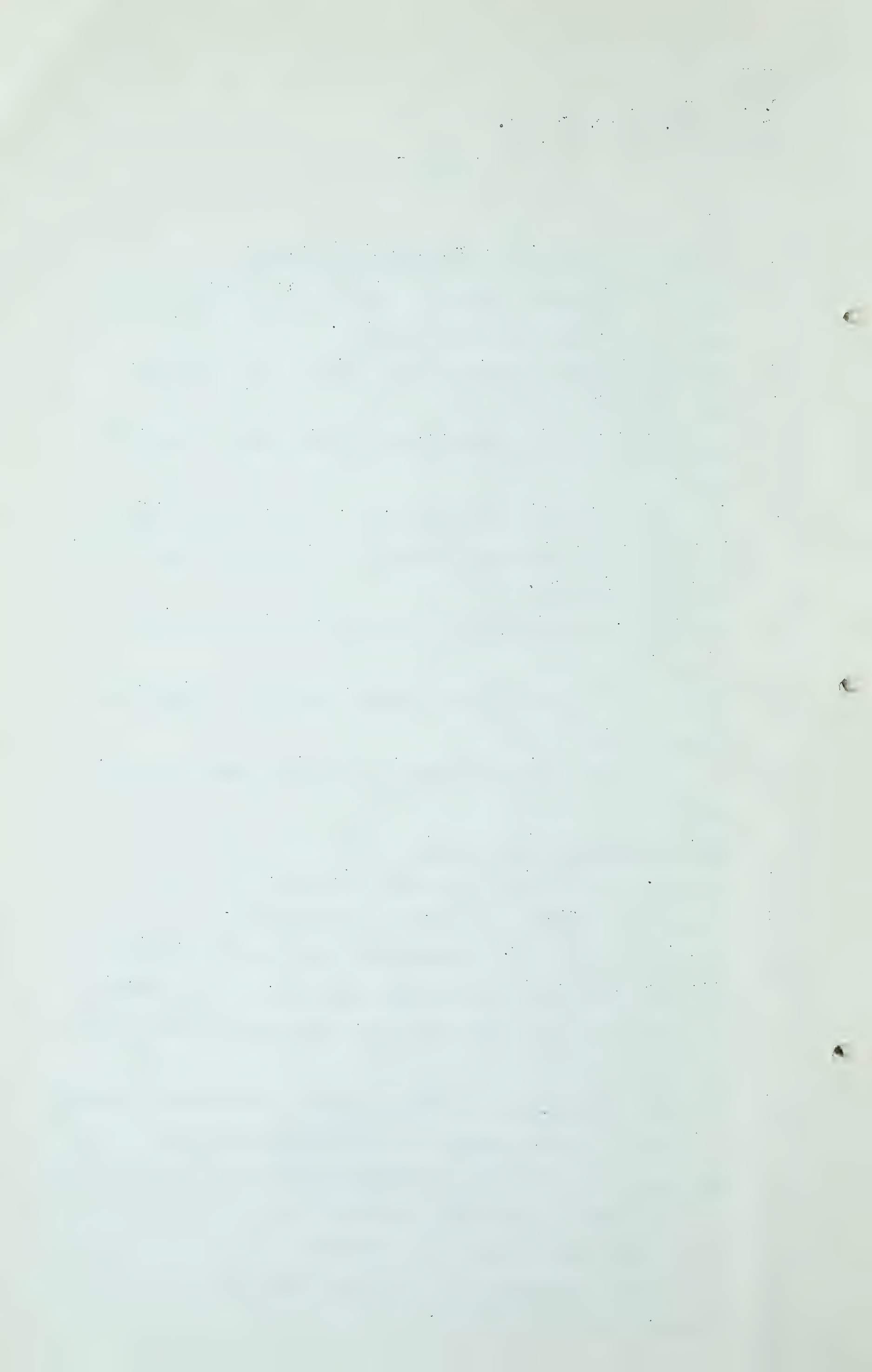
A Well the raw materials which are used in any similar industry are such as steam, water, air, lubricating oils and so on.

Q But any others, is there anything you have to import or bring into the Plant, other than power and gas?

A Yes, there are catalysts for instance.

Q But none of them amount to any great quantity, in volume?

A A great quantity in money.



E.A. G. Colls,
Cross-Exam. by Mr. Harvie.
Cross-Exam. by Mr. McDonald.

- 6466 -

Q Great in money but not in volume?

A No.

Q So your freight rates of bringing materials to the Plant are not a material item?

A That is a rather difficult question to answer because the Plant is a great distance from any source of supply.

Q But it would not be comparable with the freight from the Plant, anyway, which has a very large figure of 1,700,000?

A No.

Q Mr. Colls, just for record purposes, I wonder, - you said you were not free to disclose certain information and I am not even suggesting anything like that you should but would you be good enough to tell us why you are not?

A Well you understand that the Consolidated is merely operating this Plant on behalf of the, as an agent for the Crown.

Q And have you received instructions from the Crown not to disclose this information?

A Definitely.

Q You have?

A Yes.

THE CHAIRMAN: I, too, have also been advised to that effect.

MR. HARVIE: I have no doubt about it but I thought it should be on the record. That is all, thank you.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Mr. Colls, do I understand your statement to mean that for the years 1946, 1947 and 1948 the estimated tonnage production which is set out in schedule 2, I think it is, that

E. A. G. Colls,
Cross-Exam. by Mr. McDonald.

- 6467 -

those, or that production is absolutely going to be continued,
can we rely on that?

A No, that is an assumption to enable this table to be drawn.

Q Yes, I was wondering just how far we can rely on the statement on page 2:

"It is reasonable to expect that the Nitrogen Plant
will operate at nearly full capacity for from three
to four years to come."

A I am sorry, I was referring to Sheet 2 not Page 2. Will you repeat your question, please?

Q Yes. How far can we rely on the statement:

"It is reasonable to expect that the Nitrogen Plant
will operate at nearly full capacity for from three
to four years to come."

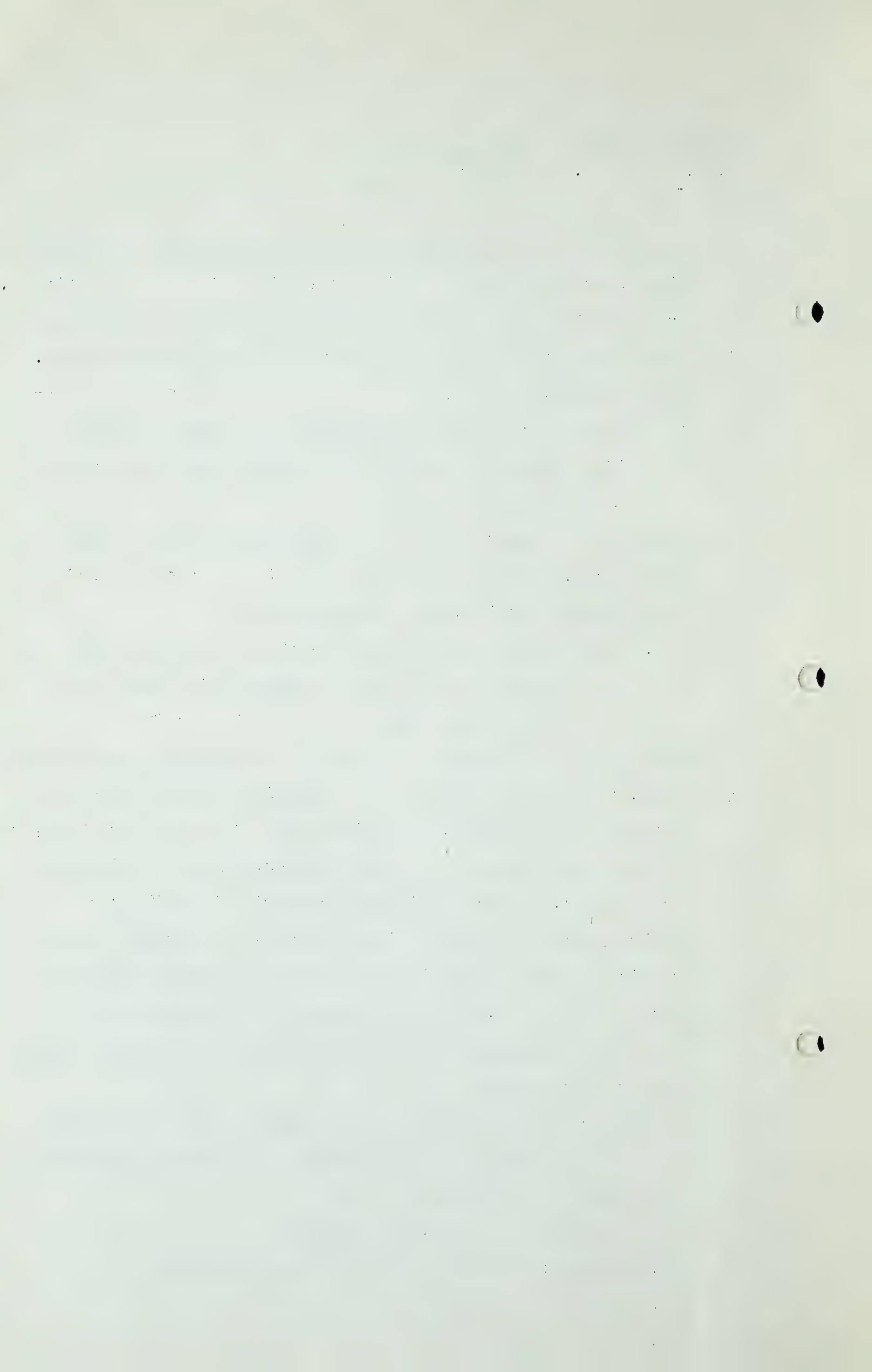
A Well, as is well known, the world is in the position of being acutely short of food, which is dependent upon agriculture, and which is dependent upon fertilizer. As a result of the present war, production in many countries has either ceased entirely or has been curtailed in favour of ordinance requirements and there is a big backlog of nitrogen required for food purposes, and in our opinion it is by no means not feasible or, in other words, three to four years seems a perfectly reasonable period to suppose that the nitrogen demand will be very heavy.

Q Now the contract made between the Alberta Nitrogen Company and the Gas Company and the Royalite Oil Company Limited has been filed in evidence

MR. CHAMBERS: Not with Royalite.

MR. McDONALD: No, I think it was originally.

MR. CHAMBERS: No.



C-1-7

E. A. G. Colls,
Cross-Exam. by Mr. McDonald.

- 6468 -

Q MR. McDONALD: Well between the Alberta Nitrogen Company and the Gas Company, fixes the price of 7 cents per thousand for the price to be paid by the Nitrogen Company for the gas, are you familiar with that?

A No, I am not, just under very general principles.

(Go to page 6469)

Edward A. G. Colls,
Cross-Exam. by Mr. McDonald.

- 6469 -

Q The price of seven cents is the cost of gas to the Nitrogen delivered ?

A Yes.

Q Did you follow the break down of that price of seven cents between the Gas Company and the supplier of gas to the Gas Company ?

A I am not sufficiently well informed on that to speak very intelligently.

Q Well as I understand it the Gas Company retains 1.6 cents and pays 5.4 cents for the scrubbed gas ?

A Yes.

Q At the entrance to its distribution line, so you would agree with me that the 5.4 cents present price includes gathering costs in the field and whatever is available for the producer of gas ?

A Yes.

Q Now to understand your comparisons that you submitted in your Schedule to this Exhibit. Let us take the alternative basis B-2, your sheet 3. Now just to put it on the record at this point Mr. Colls, reading from Exhibit 124, book 2, at page 38, dealing with the Madison operating cost, alternative basis B is described as operating expense and administration as per Madison contingency provision eliminated - plant fuel added - total opening rate base \$739,648.81 (historical cost less book depreciation) and working capital of \$140,000.00. Return on investment 11 2/3 net 7%. Dealing with British American costs at page 45 in Exhibit 124, book 2. Alternative basis B. Operating expense and administration as per B. A. plant fuel added - total opening rate base \$739,100.00 - working capital allowance \$15,000.00. Depreciation on net withdrawal basis

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

...the ... of ...

Edward A. G. Colls,
Cross-Exam. by Mr. McDonald.

- 6470 -

with no provision for salvage. Rate of return 11 $\frac{2}{3}$ %, net 7%. So that the alternative basis B-2 is the most conservative or least suggested rate base dealt with by Mr. Hamilton in his Submission 124, would you agree with me it is reasonable to suggest then that the cost set out in the alternative costs are the least that would be expected in gathering ?

A Mr. McDonald, I am not sufficiently well informed to answer your question. I have not had the opportunity of studying those various submissions.

Q All right.

THE CHAIRMAN: That is a deduction is it not Mr. McDonald ?

MR. McDONALD: Yes.

Q Well now in looking at sheet 3 for the year 1946, that is under column 5, the total cost of 4.84258 cents which is deducted from a net of 5.4 cents would give a remaining amount of money for disbursements on account of value of gas. Would you agree with me ?

A Yes.

Q Similarly in 1947 in column 6, 5.04307 cents would give a lesser amount available from a 5.4 ?

A Yes.

Q And similarly in 1948 there still would be a lesser amount. Now have you given any thought to the comparison of cost of transmission from the scrubbing plant in Turner Valley to the Nitrogen Plant at the outskirts of Calgary through the lines of the Gas Company ?

A I personally have not.

Q Have you any information at all in regard to that ?

A No, I am sorry I have not.

Q What I had in mind is that 1.6 cents is retained by the Gas

Edward A. G. Colls,
Cross-Exam. by Mr. McDonald.

- 6471 -

Company to cover that cost ?

A That is the difference between 7 and 5.4 ?

Q Yes. You have no calculation as to what would be the effect on consumers' costs if that was eliminated ?

A If it was eliminated ?

Q Yes, if the Nitrogen Plant was not operating.

A I presume it would increase to the consumers.

Q So that the benefit to the consumer as from the middle of 1946 on is a benefit that the consumer would receive other than what you have outlined in this submission leaving only the field gathering ?

A I probably misunderstood you. My reply was on the premise that the plant running the overall cost of gas to the consumer would naturally be lowered.

Q I am dealing with the cost to the Gas Company, their share of those costs ?

A I do not think I am in a position to answer that from lack of knowledge.

Q Well now is it your purpose in making this submission, Mr. Colls, to suggest that the price of seven cents be retained or are you making any recommendation ?

A We are not making any recommendation. We are only attempting to indicate the benefit of the continued operation to the area or the province and in the wisdom of the Board they will, so far as we know, establish what is a reasonable price.

Q What I am interested in is what basis have you given the Board to arrive at a decision. You would agree with me I presume that the cost of transporting gas from the well-head to your plant should be paid by your plant, a reasonable cost for transporting that gas ?

1. The first of these is the

• The second is the

the third is the

the fourth is the

• The fifth is the

the sixth is the

the seventh is the

the eighth is the

the ninth is the

the tenth is the

the eleventh is the

the twelfth is the

the thirteenth is the

the fourteenth is the

the fifteenth is the

the sixteenth is the

the seventeenth is the

the eighteenth is the

• The nineteenth is the

the twentieth is the

the twenty-first is the

the twenty-second is the

the twenty-third is the

the twenty-fourth is the

the twenty-fifth is the

the twenty-sixth is the

the twenty-seventh is the

the twenty-eighth is the

the twenty-ninth is the

the thirtieth is the

Edward A. G. Colls,
Cross-Exam. by Mr. McDonald.

- 6472 -

A Yes.

Q How do you suggest the Board can arrive at a valuation of the gas that you use in your plant in establishing a price at the well-head to the producer ?

A I cannot presume to guide the Board.

THE CHAIRMAN: No one up to the present time has been able to do that.

Q MR. McDONALD: Well you would agree with me this far that the Board should fix a price not having any guide from your Company ?

A The Board should fix a price, certainly.

Q If it should fix a price in excess of what your Company can afford to pay, competing in the world's market, your Company would have to close down, would it not ? Or discontinue operations ?

A Are you referring to the Alberta Nitrogen Products ?

Q Yes, I am referring to whoever is operating the plant.

A If the price was unreasonable the plant would be forced to close down. That is naturally true. If the price is unreasonable. Do you mean unreasonable or prohibitive ?

Q Prohibitive. Well, no, no. Unreasonable is what I had in mind.

MR. HARVIE: Unreasonably high.

Q MR. McDONALD: What I am getting at is what is the Board to do with your submission. We have no idea.

THE CHAIRMAN: Well, of course, your question should be Mr. McDonald, and I do not think the witness will answer it. What price of gas can you stand and operate your plant ?

A I think we understand each other Mr. Chairman.

THE CHAIRMAN: There is no use milling around in a circle

the first of the year 1900
the first of the year 1900
the first of the year 1900
the first of the year 1900

the first of the year 1900
the first of the year 1900
the first of the year 1900
the first of the year 1900

the first of the year 1900
the first of the year 1900
the first of the year 1900
the first of the year 1900

the first of the year 1900
the first of the year 1900
the first of the year 1900
the first of the year 1900

the first of the year 1900
the first of the year 1900
the first of the year 1900
the first of the year 1900

Edward A. G. Colls,
Cross-Exam. by Mr. McDonald.
Re-Cross-Exam. by Mr. Harvie.

- 6473 -

when you can go in a straight line. I would like to know what the answer to that question is.

MR. HARVIE: I think he answered it very nicely off the record.

Q MR. McDONALD: You are not in a position to give us any ?

A No.

Q Any information on which we can arrive at or even negotiate with you as to what you should pay for this gas ?

A No.

THE CHAIRMAN: I think, Mr. McDonald, that all I can do is to prepare two rates. One on the assumption that the Company is on the line, and one on the assumption that it is not and they will have to make the decision. It seems to me that is all I can do, unless you can suggest a better method.

MR. McDONALD: We can deal with that in argument, sir.

MR. HARVIE: I wonder if I would be allowed another question ?

THE CHAIRMAN: Yes.

RE-CROSS EXAMINATION BY MR. HARVIE:

Q I notice in your submission Mr. Colls you say that the freight paid is \$1,703,000.00. Can you tell me whether ammonia and ammonium nitrate receives the same classification in freight rates ?

A No, I do not.

Q Can you tell me the classification that each one does receive ?

A You mean rate schedules under which they are shipped ?

Q Yes.

A I have not that information with me.

Q Where do you ship to ?

Edward A. G. Colls,
Re-Cross-Exam. by Mr. Harvie.

- 6474 -

A We ship the ammonia to Trail.

Q Do you know the rate on that ?

A I do, yes.

Q Is that a secret. Surely that is not ?

A I think so.

Q I beg your pardon ?

A I would think so.

Q Would you think it would be a secret ?

A Yes.

Q A freight rate. I would like to get that for the Commission. I think the largest item here is one that may be required to look into if we have to compete with world markets and if we can get some information from this witness.

THE CHAIRMAN: You could get it from the C. P. R.

MR. BLANCHARD: I think there is no objection to that being given.

A The information you would like is a freight rate from Turner Siding to Trail ?

Q If those are your shipping points.

A On ammonia fourteen dollars.

Q On ammonia and where do you ship the ammonium nitrate to ?

A All over the world.

Q All over the world and you ship it directly from there at varying rates ?

A Yes.

Q Can you give us the classification ?

A I would not like to give you the impression that all the ammonia goes to Trail. It also goes to many points in Eastern Canada and has been shipped to the States.

Q Well it must come within some classification in your freight

Edward A. G. Colls,
Re-Cross-Exam. by Mr. Harvie.
Re-Cross-Exam. by Mr. Chambers.

- 6475 -

rate schedule. Can you tell us which one it is ?

A I could not off-hand, but I certainly can get that information for you.

Q Thank you. Now in connection with the cost of the plant, you have given us some items. I gather you do not care to disclose and properly so, the overall cost, but can you give us the percentage of the cost of the gas you purchase to the overall cost of the plant ?

A I am afraid not. The only figures that I am at liberty to give are those included in this brief, but I seem to remember reading Mr. Donald's evidence before this Board in which he gives the capital cost in round numbers of the plant. You have an annual gas bill in the evidence submitted here.

Q We have the annual gas bill and we have the freight bill and the power bill and the wage bill. Now I wonder if we can get the figure of overall rates from that break down ?

A Which other item ?

Q Any other items there are. I do not know which ones there are.

THE CHAIRMAN: Do you mean depreciation ?

MR. HARVIE: No, leaving out capital items, such as return on investment. I mean costs for material and services and all other such items ?

A I am afraid I am not at liberty to give you those figures.

RE-CROSS-EXAMINED BY MR. CHAMBERS:

Q There are one or two other matters following on what Mr. Harvie has asked you. Mr. Colls, do you know or know of S. R. Frost, whom I understand is associated with the controller of chemicals in the Department of Munitions and Supply ?

A Yes, I have met the gentleman.

• The first part of the paper discusses the importance of the study.

• The second part of the paper discusses the methodology.

• The third part of the paper discusses the results.

• The fourth part of the paper discusses the conclusion.

• The fifth part of the paper discusses the future research.

• The sixth part of the paper discusses the limitations.

• The seventh part of the paper discusses the references.

• The eighth part of the paper discusses the appendix.

• The ninth part of the paper discusses the bibliography.

• The tenth part of the paper discusses the index.

• The eleventh part of the paper discusses the glossary.

• The twelfth part of the paper discusses the list of figures.

• The thirteenth part of the paper discusses the list of tables.

• The fourteenth part of the paper discusses the list of abbreviations.

• The fifteenth part of the paper discusses the list of symbols.

• The sixteenth part of the paper discusses the list of acronyms.

• The seventeenth part of the paper discusses the list of equations.

• The eighteenth part of the paper discusses the list of formulas.

• The nineteenth part of the paper discusses the list of diagrams.

• The twentieth part of the paper discusses the list of figures.

• The twenty-first part of the paper discusses the list of tables.

• The twenty-second part of the paper discusses the list of figures.

• The twenty-third part of the paper discusses the list of figures.

• The twenty-fourth part of the paper discusses the list of figures.

• The twenty-fifth part of the paper discusses the list of figures.

• The twenty-sixth part of the paper discusses the list of figures.

• The twenty-seventh part of the paper discusses the list of figures.

Edward A. G. Colls,
Re-Cross-Exam. by Mr. Chambers.

- 6476 -

Q I have in my hand a page from the Engineering Journal of February 1946 which is a Canadian publication. You are familiar with it ?

A Yes.

Q And this page reports a meeting of the Hamilton branch of the Institute on Thursday, December 20th, 1945 at which the speaker of the evening was Mr. Frost and the subject that he spoke on according to this report, was Canada's Nitrogen Industry. And he says this, and I am putting it to you to see if you will agree with this.

"The speaker introduced his topic with a short historical sketch of the production of nitrogen, nitrates and fertilizers in general. The production of nitrates has always been an essential step in the production of explosives for war purposes."

Would you agree with that ?

A Yes.

Q Then he goes on to say,-

"The low concentration of Chile nitrate combined with lack of shipping space has forced the synthetic production of suitable compounds of nitrogen."

Would you agree with that ?

A Yes.

Q Including that Chile nitrate of low concentration ?

A Yes.

Q Then he says this, at the present time and he is speaking of December 20th, 1945,

"At the present time the demand for nitrates and fertilizers is very great and Canada's production is in the neighbourhood of thirty million dollars per year".

M-2-9

Edward A. G. Colls,
Re-Cross-Exam. by Mr. Chambers.

- 6477 -

Do you agree substantially with that ?

A Yes. I would not be surprised if that was a fairly correct figure.

(Go to Page 6478)

1870

1871

1872

1873

1874

1-2-1 10.00 a.m.

E. A. G. Colls,
Cross-Exam. by Mr. Chambers.

- 6478 -

Q And then he goes on "Canadian consumption of Nitrate Fertilizers is approximately 10% of the total production. The remaining 90% is being exported to approximately 40 different countries throughout the world." Do you agree with that?

A Yes.

Q I would like to tender this as an exhibit, Sir, Page 123 from the Engineering Journal of February 1946.

MR. BLANCHARD: You have read all there is in it?

MR. CHAMBERS: No. It summarizes how this plant came to be built.

MR. BLANCHARD: I am just wondering if the rest of it is agreed to. Perhaps we can look at it during adjournment to see. It is a speech not under oath.

MR. CHAMBERS: It could be copied into the record. The part that I have omitted, it is more of an interesting situation as to how the plant came to be built, because of the fear of a plant in England being bombed, but I will read it out if you wish.

MR. STEER: Why not have the reporter copy it in.

MR. CHAMBERS: Yes.

MR. BLANCHARD: I would like to see what it says if it is going in as part of the evidence.

THE CHAIRMAN: Well, Mr. Howard will copy it into the record.

MR. BLANCHARD: The whole of the extract?

MR. CHAMBERS: He can copy the whole of the report of this meeting. It is not a long report.

THE CHAIRMAN: All right. We will have Mr. Howard copy it in.

" On Thursday, December 20, 1945, approximately forty members of the Institute and their guests met at

E.A.G.Colls,
Cross-Exam. by Mr.Chambers.

- 6479 -

"McMaster University for the regular monthly meeting of the Branch. In the absence of N. Eager, chairman, A. R. Hannaford, vice-chairman officiated.

The speaker of the evening introduced by G. L. T. Vollmer, was Mr.S. R. Frost, past-chairman of the Toronto Branch of the Institute and past-president of the Ontario Association of Professional Engineers who chose for his subject CANADA'S NITROGEN INDUSTRY. By virtue of his previous association with the North American Cyanamid Company, Ltd., and his present association with the controller of chemicals, Department of Munitions and Supply, Montreal, as chemical engineer, Mr. Frost came before the meeting eminently qualified to develop his subject.

The speaker introduced his topic with a short historical sketch of the production of nitrogen, nitrates and fertilizers in general. The production of nitrates has always been an essential step in the production of explosives for war purposes. The low concentration of Chile nitrates combined with lack of shipping space has forced the synthetic production of suitable compounds of nitrogen. The largest plant producing such nitrates in Great Britain was located on the east coast in a position very vulnerable to air attacks. Early in the war it had been found necessary to seek additional and more reliable sources for these compounds.

The decision was made, therefore, to construct suitable plants in Canada and the site chosen for the main plant was at Welland, Ontario. The reasons for selection of this site were - easy access of rail and water transportation systems, proximity to an abundant source of electri-

E. A. G. Colls,
Cross-Exam. by Mr. Chambers.

- 6480 -

cal power and to the existing plant of the North American Cyanamid Company, Ltd.

The planning, designing and construction of this huge project involving many millions of dollars was accomplished in record time, partial production being attained approximately nine months after inception of the project.

The details of the construction of the plant were outlined by Mr. Frost and were well illustrated by means of a sound film.

Concurrent with construction work at Welland, Ontario, additional plants were being built at Trail, B.C. and at Calgary, Alta. With all three plants in operation the output of Canadian-made nitrogen and nitrates reached very great proportions.

By some strange quirk of fate the large nitrate plant in Great Britain was unharmed by bombing, with the consequence that the Canadian nitrate plants produced quantities far in excess of war requirements. In order to utilize the excess to advantage, an intensive research programme was undertaken and very shortly excess nitrogen was being converted into fertilizers. During the war a small part of this fertilizer production was used in growing Canada's crops.

At the present time the demand for nitrates and fertilizers is very great and Canada's production is in the neighbourhood of thirty million dollars per year. Canadian consumption of nitrate fertilizers is approximately 10 per cent of the total production. The remaining 90 per cent is being exported to approximately 40 different countries throughout the world.

1911

1912

1913

1914

1915

1916

1917

1918

1919

1920

1921

1922

1923

1924

1925

1926

1927

1928

1929

1930

1931

1932

1933

1934

1935

1936

1937

1938

1939

1940

1941

1942

1943

1944

1945

1946

1947

1948

1949

1950

1951

1952

1953

1954

1955

1956

1957

1958

1959

1960

1961

E. A. G. Colls,
Cross-Exam. by Mr. Chambers.
Exam. by The Chairman.
Cross-Exam. by Mr. Chambers - 6481 -

" At the conclusion of the talk Mr. Frost answered numerous questions which dealt chiefly with the technical phases of the production of various nitrogen compounds.

The members of the Hamilton Branch of the Institute met jointly with the Hamilton section of the Chemical Institute of Canada."

Q THE CHAIRMAN: Mr. Colls, on page 2, you show with regard to the disposition of the 100% of ammonium nitrate made at Turner Siding, and is the resulting product of approximately one-third of the ammonia. On page 1 you say, approximately one-third of the output of ammonia is used in the manufacture of ammonium nitrate?

A Yes.

Q And it is the manufactured product ^{from} one-third of the ammonia that is represented by the disposal figures given on page 2.

A Yes.

Q And the other ammonia goes elsewhere for processing of some kind?

A Yes.

Q And has a value wherever it goes, of course?

A Yes.

Q Thanks. Is there anything further?

MR. CHAMBERS: I have one more question, Sir.

.....

CROSS-EXAMINATION BY MR. CHAMBERS

Q I also have in my hand, Mr. Colls, the report.....

THE CHAIRMAN: Whose hat are you taking those things out of, Mr. Chambers?

MR. CHAMBERS: I beg your pardon?

THE CHAIRMAN: Whose hat are you taking those things

E. A. G. Colls,
Cross-Examination by Mr. Chambers.

- 6482 -

out of?

MR. CHAMBERS: This is a publication of the United States Department of Agriculture, Inter-Bureau Committee on Post-War Programme. I am not going to file this as an exhibit, and it is on the subject of the utilization of Government synthetic ammonia plants for fertilizer production. And in one part of the report it deals with the use of Government plants, and they are talking about synthetic ammonia plants, and I am merely going to put it to you to see if you agree with the proposition.

"Ammonium nitrate is one of the lowest cost nitrogen fertilizers that could be produced at the war plants," and I am talking about explosive plants. Would you agree with that proposition?

A Would you repeat it please, Mr. Chambers?

Q "Ammonium nitrate is one of the lowest cost nitrogen fertilizers that would be produced at the war plants."

A That is probably true.

Q "It is not only a low cost material to manufacture, but being of high analysis, it can be distributed at the low cost per pound of nitrogen."

A Yes.

Q You agree with that?

A Yes.

Q That is all.

THE CHAIRMAN: Thank you very much, Mr. Colls.

Mr. Fenerty, have you any cross-examination of Mr. Brownie on the evidence he gave?

MR. FENERTY: Yes. It won't be very long, but I have a few questions.

THE CHAIRMAN: Have you any, Mr. Blanchard?

F. A. Brownie,
Cross-examination by Mr. Fenerty

- 6483 -

MR. BLANCHARD: No, I have not.

.....

F. A. BROWNIE, recalled, having
already been sworn, cross-examined by Mr. Fenerty, testified
as follows:-

Q Mr. Brownie, in paragraph 1 of this Exhibit 173, you have a
reference to the price for this gas conveyed to the Bow Island
Field for repressuring, a price computed by the formula you
mentioned here plus 2 cents per MCF to cover the costs chargeable
against such gas in respect to gathering, compression, and so
on. Now, in Exhibit 99, submission R-3 of the Royalite Company,
at the bottom of page 15 and the top of page 16, there is a
reference to that situation, and I will read it to you.

"To date gas repressured in Bow Island has been supplied
from Royalite wells and the true cost of the venture
has consisted of costs that would not have been in-
curred if gas scrubbed and delivered for repressuring
in Bow Island had instead been flared. Under such
circumstances, the venture was economically feasible
even if the repressuring experiment later turned out
to be a failure."

Now, as I understand that situation, in dealing with the costs,
the costs which would be incurred, what you might call increment
costs, that is some additional costs over and above all of the
costs of gathering, repressuring and scrubbing which would be
inherent in the undertaking, whether or not this undertaking
had been embarked on?

A That is correct.

Q And it is on the basis that these were increment costs only
that a figure of 2 cents was suggested?

F. A. Brownie,
Cross-Examination by Mr. Fenerty.

- 6484 -

-- In our submission?

Q Yes?

A No. The costs to be allocated to that gas might be looked on in various ways. The increment cost of course is the actual increase chargeable to that gas resulting from putting it into storage rather than flaring it, but you might attribute to that gas costs computed on some other basis. You might allocate all costs in Turner Valley in various ways and arrive at some other costs to be chargeable to that gas.

Q For instance, it was not on the basis of the actual cost of gathering, compressing and scrubbing in the Turner Valley operation, 2 cents is not supposed to bear any relation to that?

A No. The 2 cents was not our idea of an increment cost. It was not our idea of what might be called a total or proportional cost. It was a very rough approximation of what we thought might be an allocated cost.

Q What you would say as a negotiated figure, would that be a way of putting it?

A It was hardly a negotiated figure, Mr. Fenerty, because we did not have any negotiations with anybody on that point. It was simply an arbitrary figure.

Q Now, if you were attempting to consider the increment cost, and you might have some difficulty, I take it, in arriving at what that might be?

A Yes, I think you would.

Q And might turn out on an increment basis, an increment cost, an additional cost possibly involving some chemical, some oils and some power bills, or something like that. It might turn out that those costs would be in the neighbourhood of half a cent or a quarter of a cent.

F.A. Brownie,
Cross-Examination by Mr. Fenerty.

- 6485 -

A It might be, yes.

Q I see. And that repressuring operation due to the seasonal nature of it, and the time it was done and so on, the cost in connection with that, those costs are purely increment costs, are they not?

A Not necessarily, Mr. Fenerty. If you are talking about the total increase in out-of-pocket expenses due to salvage of this gas, it would be an increment cost which might be on the order of one quarter of a cent, but I think it is quite sound under certain circumstances, to use what might be called an allocated cost, that is, a common price in rate making.

Q It is a problem that requires some real consideration?

A Yes.

Q You will agree with me on that?

A Yes.

Q You agree with me on that and I will leave it there?

A Yes, that is right.

Q Now, in Volume 80, Mr. Brownie, at page 6399, and again at page 6400, in answer to my friend, Mr. McDonald, following the discussion that took place there:

"Q Then let me understand this. The investment by your Company at the rate of one cent and the two cent payment is in fact a payment out on account of gas purchased by your Company?

A That is correct.

Q It would be in the nature of a general disbursement by your company chargeable in its account, a current operating expense is it now?

A No, I do not think it would be a current operating expense, Mr. McDonald. It is in part at least, in respect of gas to be used some time in the possible remote future."

F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6486 -

And then again at page 6400:

"Q Where would that be set up in your accounts?"

That is at the bottom of the page,-

"A In the ordinary utility practice and the Orders approved by the Board and the City would be capitalized.

Q It would be added to the rate base?

A Yes.

Q And an investment on which the shareholders would get their rate of return?

A That is correct.

Q You tell me that was approved by the City. That is one of the matters that was negotiated between the City and the Gas Company in revisions of the Orders that were made to the rates since 1939 for instance?

A Yes."

Now, I suggest to you, Mr. Brownie, that in dealing with gas repressured in the Bow Island Field, that that perhaps is not quite a correct statement, that there is an error there, that there had been perhaps no discussion with the City and no Orders of the Board dealing with the price to be paid for that gas being a matter of being added to the rate base, or an annual operating cost because that thing did not arise, there was no price being paid for that gas, and has not been up to the present time?

A Well I had reference there, Mr. Fenerty, to our practice in respect to the Bow Island operation of capitalizing the expenses.

Q That is, the repressuring costs?

A Yes.

Q You mean as to the price paid for the gas, that has never been raised?

F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6487 -

A No, that point has never arisen.

Q That point has never arisen?

A No.

Q And never has arisen with reference to capitalized repressuring costs since 1939? There has not been any discussion or any Orders with reference to that, the matter has not been dealt with, either the cost or the repressuring?

A I presume that is correct.

Q Yes. I just wanted to correct that situation, so that it would not be mentioned against us in any argument we might make.

A Yes.

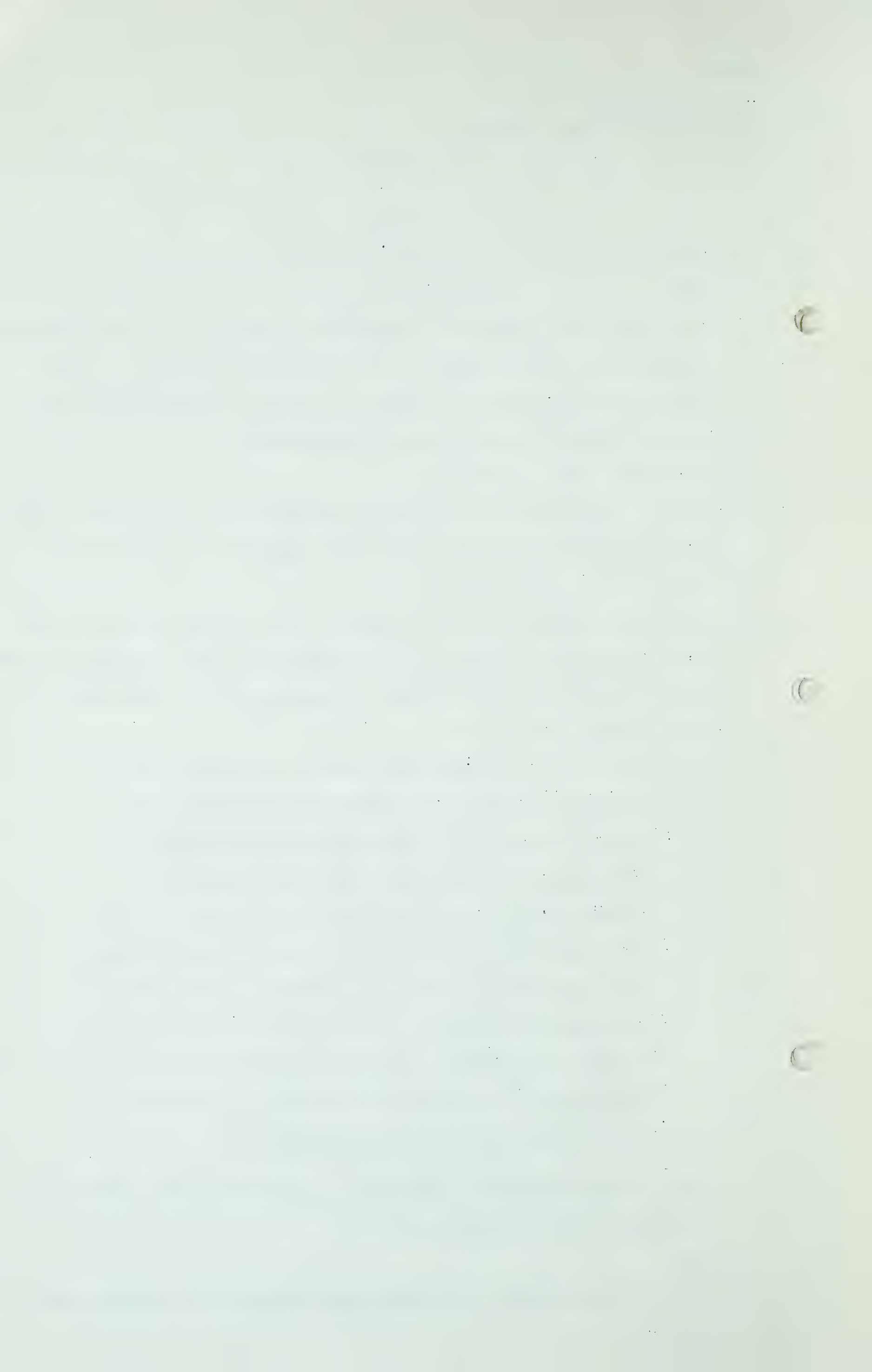
Q Now, Mr. Brownie, I want to discuss with you for a few moments this proposal as compared to the agreement, and you will remember that in Exhibit 99 the Royalite Company made the submission of the proposal on page 17:

"Royalite Oil Company Limited has instructed me to state that Royalite is prepared to continue to operate under the before-mentioned agreement of 20th August, 1930, only if the cost to Royalite is not greater than the cost of purchasing gas at the price set for repressured gas in Turner Valley, such price not to exceed a maximum of 3.6 cents compounded annually at 8%, a maximum price of 1 cent per thousand cubic feet, which Royalite is prepared to pay for the purchase of gas for repressuring in the Bow Island Field."

And in your submission you impose a somewhat similar limitation on the price to be paid for gas?

A Yes.

Q But the difference in the proposal, between the proposal and



F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6488 -

the agreement, is that under the existing agreement, or the agreement that has existed at the present time, the Royalite Company has supplied that gas with the attendant services of gathering, and scrubbing, and the Gas Company has done the repressuring, and if and when that gas should be sold, the proceeds would be divided in the manner contemplated by the agreement. Whereas, under the present proposal, it is proposed that the Gas Company will purchase that gas, will pay certain costs, whether negotiated or whether they are calculated costs, or whatever they are, involved in the gathering and scrubbing, and will pay its own compression costs. Now, it is just a truism, isn't it, that the Gas Company being a public utility, if it spends anything by way of purchase price of the gas, or the gathering prices or the scrubbing prices, and so on, must be reimbursed for those amounts?

A Yes sir.

Q And must be reimbursed by its customers?

A Right.

Q And whether or not it is reimbursed by an annual charge against operating expense or by an addition to the rate base, it still gets it from the customer?

A That is true.

Q And it must then get it from its present customers year by year?

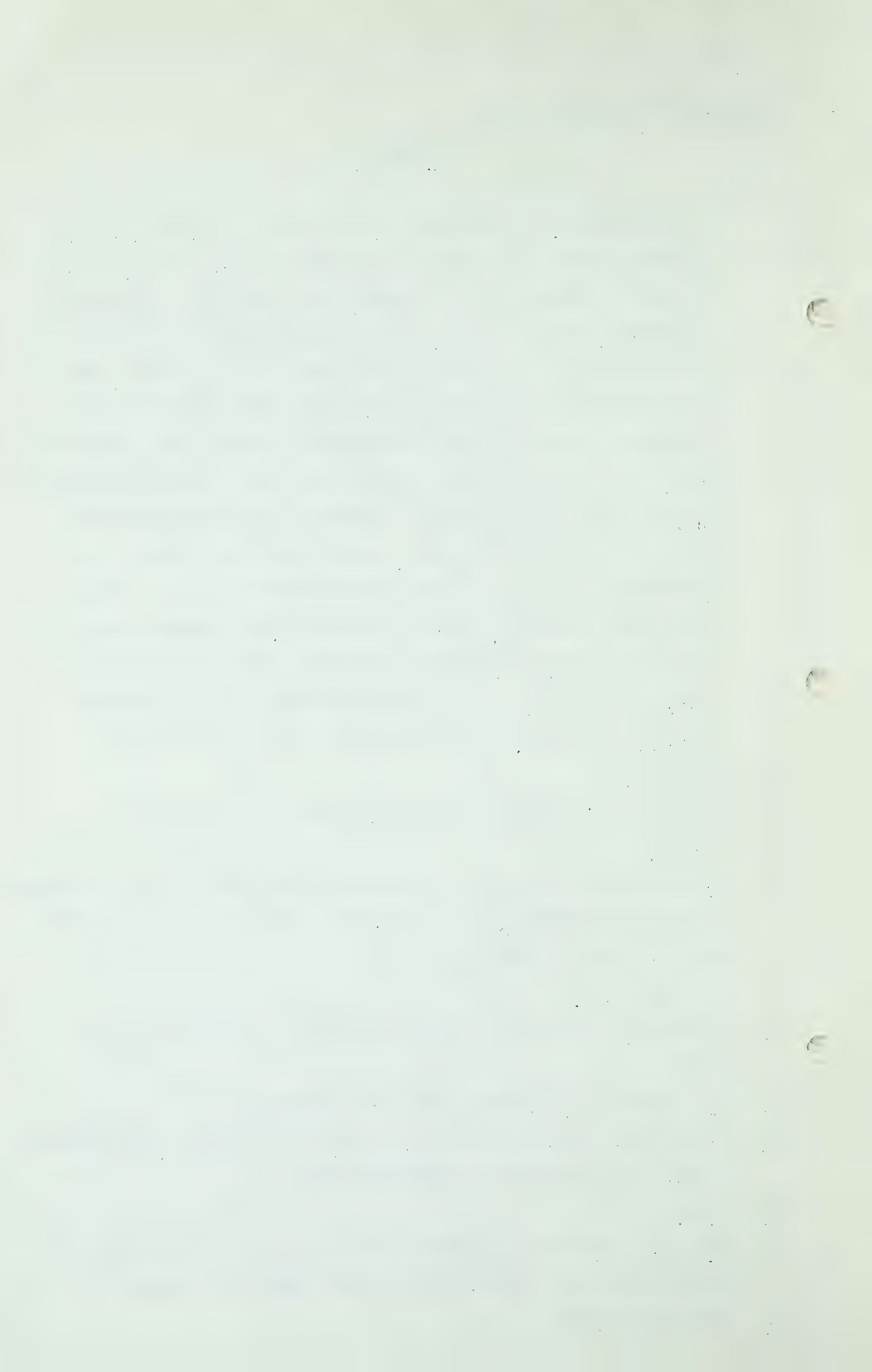
A It must get it from some group of customers.

Q And we have heard a great deal during this Inquiry, you remember, about those that use the gas paying for it?

A Yes.

Q And if we continue the system that is outlined in the Royalite submission, that gas will be paid for when it is used?

A That is correct.



F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6489 -

Q And it will appear in the rates of the customers who use it?

A Yes.

Q And the only way that you can give effect to the proposition that those who use a thing pay for it, is by a continuation of the present arrangements rather than by present payment for the gas, is that right?

A Not entirely, Mr. Fenerty. If we purchase this gas now for .63 cents, and it turns out that the gas was purchased sufficiently soon that that resulted in a more favourable price to us than 4 cents at the time we use it?

Q Yes?

A I think it would be ^a reasonable deal. It would mean that the present customers would pay carrying charges on the cost of that gas in the interval.

Q Yes?

A But that might not be altogether unfair there because both groups of customers benefit to a certain extent. The present customers benefit because they have a stand-by field available in case it is needed.

Q Yes?

A And the future customers benefit by the fact they have a reserve when they need it.

Q And your principal consideration is having a stand-by, that is really the thing that motivates this proposition?

A Well, both the considerations I think are important, Mr. Fenerty.

Q And it is true, is it not, that whether your proposal is adopted or we continue under the contract and the proposals of the Royalite Company, that that principal function is fulfilled, we have our stand-by in either case?

A Yes.

F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6490 -

Q So that we have no more worry about that. Now then as far as the Gas Company is concerned these costs will of course have to be passed on to the consumer?

A Yes.

Q So that the principal parties concerned in whether or not the Royalite proposal is adopted or this agreement is adopted are the consumers on the one hand and Royalite or the Madison interests on the other. That is true is it not? You are in between and you will be reimbursed whatever happens?

A Yes, if you take the attitude we have no interest in the consumers' interest, Mr. Fenerty.

MR. STEER: And our presence here refutes that.

Q MR. FENERTY: I suppose neither of us, I certainly do not know what is going to happen in the future about gas operation and probably you will go that far with me that you do not either?

A That is right.

Q But I want you to picture a situation where by reason of changed conditions, new gas fields or something else, this Bow Island field continues to be a stand-by indefinitely. It may never be used at all. Now on the basis of your proposals, not only the present consumers of gas but future consumers of gas will be paying over a period of years both the price of the gas, of the gathering of the gas and so on, for something which they might never need and they might never use. That is true is it not?

A That is true on that assumption, Mr. Fenerty.

Q Under the Royalite proposal, the Royalite Company is prepared to take the risks. It might never be needed or never be used and their proposal is that no matter whether it is needed or used, neither the customers of today or the

F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6491 -

customers of the future will have any part of that burden?

A That is correct on that assumption.

Q I suppose if Royalite is prepared to take that risk you would scarcely object would you?

A We would not object to them taking that risk. We might be willing to accept an alternative proposition if we thought it was more advantageous.

Q I understand this is just a submission?

A Just a submission.

Q And after discussing this you can see a certain burden on the consumer that he is relieved of if the other proposal is continued cannot you?

A Yes. On the other hand it might cost him more. Your alternative could conceivably cost him more, Mr. Fenerty.

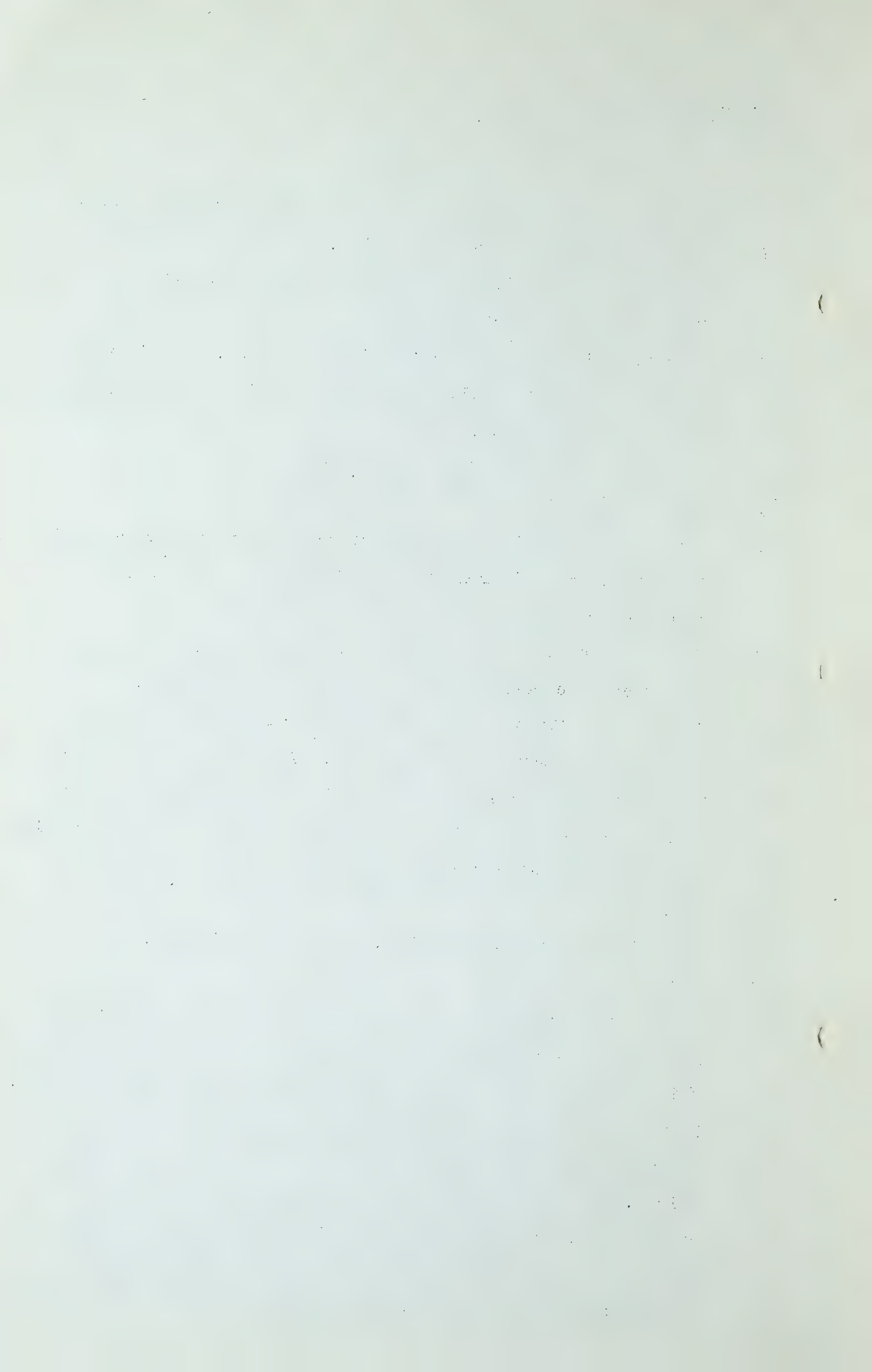
Q Yes, I see. Now there are two other matters I want to ask you about and then I will leave it. Assuming for the moment that this proposal is adopted it will involve the Gas Company owning the gas and paying the gathering costs and the scrubbing costs and the price for the gas, three things.

A Yes.

Q And doing its own compression, that is four things.

A Yes.

Q That is an incident of the ownership of the gas. Now I want you to turn for a moment to the things involved in the ownership of gas by the Royalite Company in the Turner Valley field. I suggest to you the exact analogy of that if the Royalite Company is going to own that gas is it should pay three things, the price of the gas, the gathering cost and the compression, scrubbing being absent in that case. Is that an exact analogy? My friend points out I said compression. You understand what I mean, repressuring.



F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6492 -

A Without having thought it out completely I would say it was a correct analogy.

Q Do I understand you to say that as far as Royalite and Madison are concerned that as far as this agreement is concerned that has been negotiated on the basis of a reasonable proposition?

A Royalite and Madison, as I understand it, have agreed to the form of this suggested agreement.

Q As far as you have gone, it seemed to appeal to you as a reasonable proposition that these incidents are attached to the ownership of gas?

A I do not know whether it would be fair for me to say "yes" to that, Mr. Fenerty.

Q We will just leave it at that. One thing more, Mr. Brownie. Before I ask this question, Mr. Brownie, I want to mention this point that in raising this point now it may be considered a matter of law or it may be considered a matter of the construction of the Statute under which we are operating but I did feel that unless I discussed it now, it might be said that I had acquiesced in the principle that this Board might now fix a price plus a gathering cost for dry gas and I do not want to be put in that position when the Argument comes along.

THE CHAIRMAN: Mr. Fenerty, I do not think you can be accused of having acquiesced in anything from the beginning of the Hearing till the present time.

MR. FENERTY: That has been my earnest hope.

MR. CHAMBERS: Hear, hear.

MR. FENERTY: And I would not want to spoil that record so I will deal with it for a moment.

Q Mr. Brownie, if you want to wait for your counsel to tell you

F. A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 6493 -

what this it is quite all right. I find in examining the Natural Gas Utilities Act, in paragraph 72, three things amongst others that the Board may deal with. One is:

"The just and reasonable price or prices to be paid for natural gas in its natural state as and when produced from the earth at the gas exit from the separator where a separator is employed and in all other cases from the well-head either alone or in association or conjunction with other petroleum products or hydrocarbons, etc."

I find in the second place:

"The just and reasonable price or prices to be paid for natural gas, which has been gathered and delivered to an absorption plant and after it has been subjected to treating or processing by absorption."

And I find a third one:

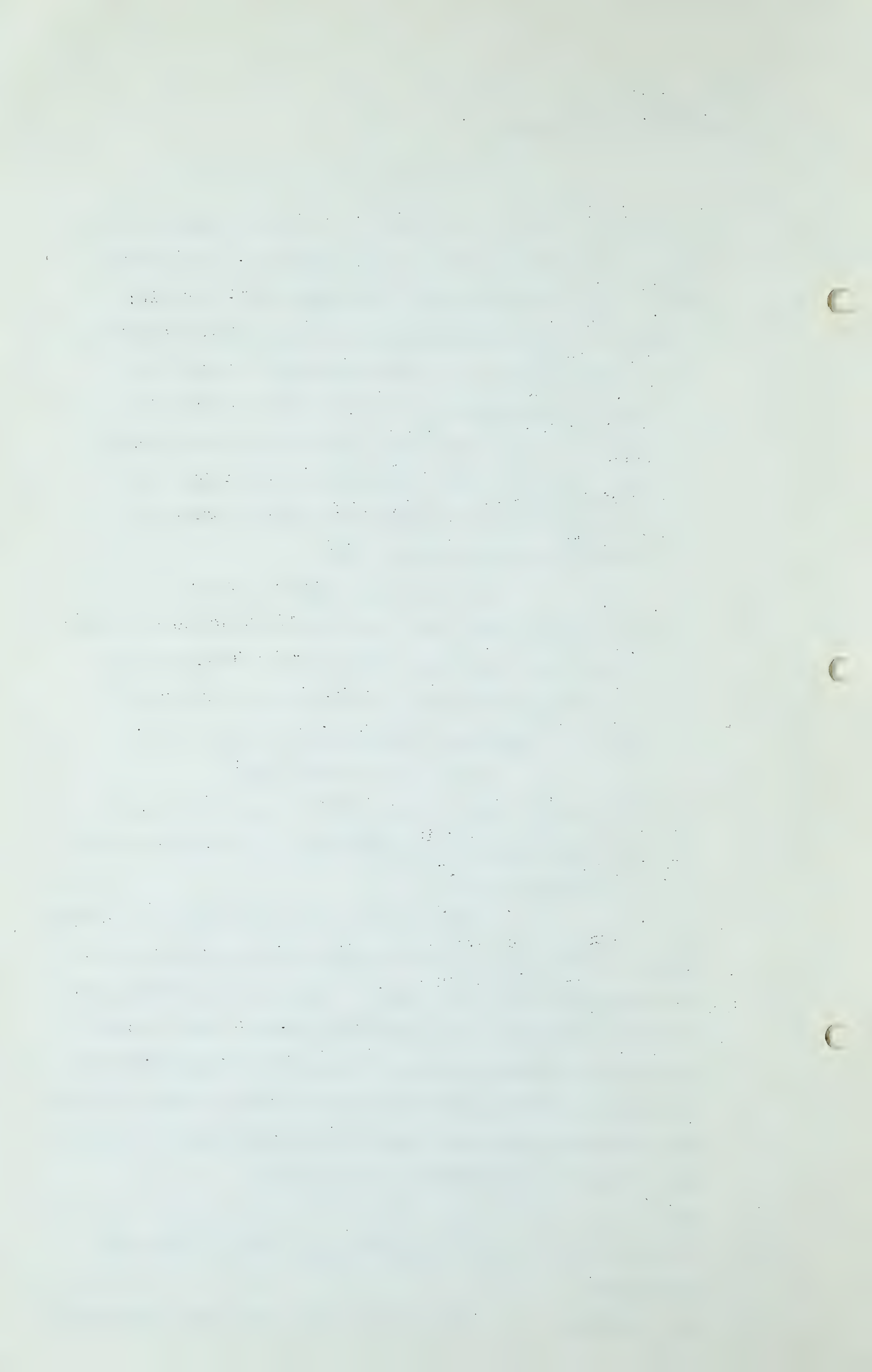
"The just and reasonable price or prices to be paid for natural gas after it has been purified, scrubbed or otherwise treated."

It does seem to be that there is no room either on your application or anyone else's application for the consideration of the price of dry gas at any place other than downstream from the absorption plant. Now I do not expect you to answer that. I just want to suggest to you that this is not a price that can be fixed, a price of this kind involving gathering costs for dry gas, and it is only dry gas you are interested in is it not?

A Yes.

Q I will leave that for consideration so that I have not acquiesced.

THE CHAIRMAN: And thereby maintaining the status quo.



F.A. Brownie,
Cross-Exam. by Mr. Fenerty.
R.D. Mercer,
Cross-Exam. by Mr. Fenerty - 6494 -

MR. FENERTY: I do not expect Mr. Brownie to indulge
in an argument with me as to whether that is right or not.

THE CHAIRMAN: Anything further from Mr. Brownie?

Thanks very much, Mr. Brownie. Now Mr. Mercer.

.....

RUSSELL DANFORTH MERCER, (Recalled.)

THE CHAIRMAN: Mr. Fenerty desires to ask you some
further questions.

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. FENERTY.

Q We have been having a little bit of difficulty getting
together on the exact thing I want and I referred to my
friend some citations here. I think you have seen them?

A Yes.

Q The statements that Mr. Kirkpatrick referred to are involved.
I will just read this to you. I want to read this to you.
Perhaps I was at fault in not giving these additional cit-
ations yesterday. Mr. Kirkpatrick, at page 1896, said:

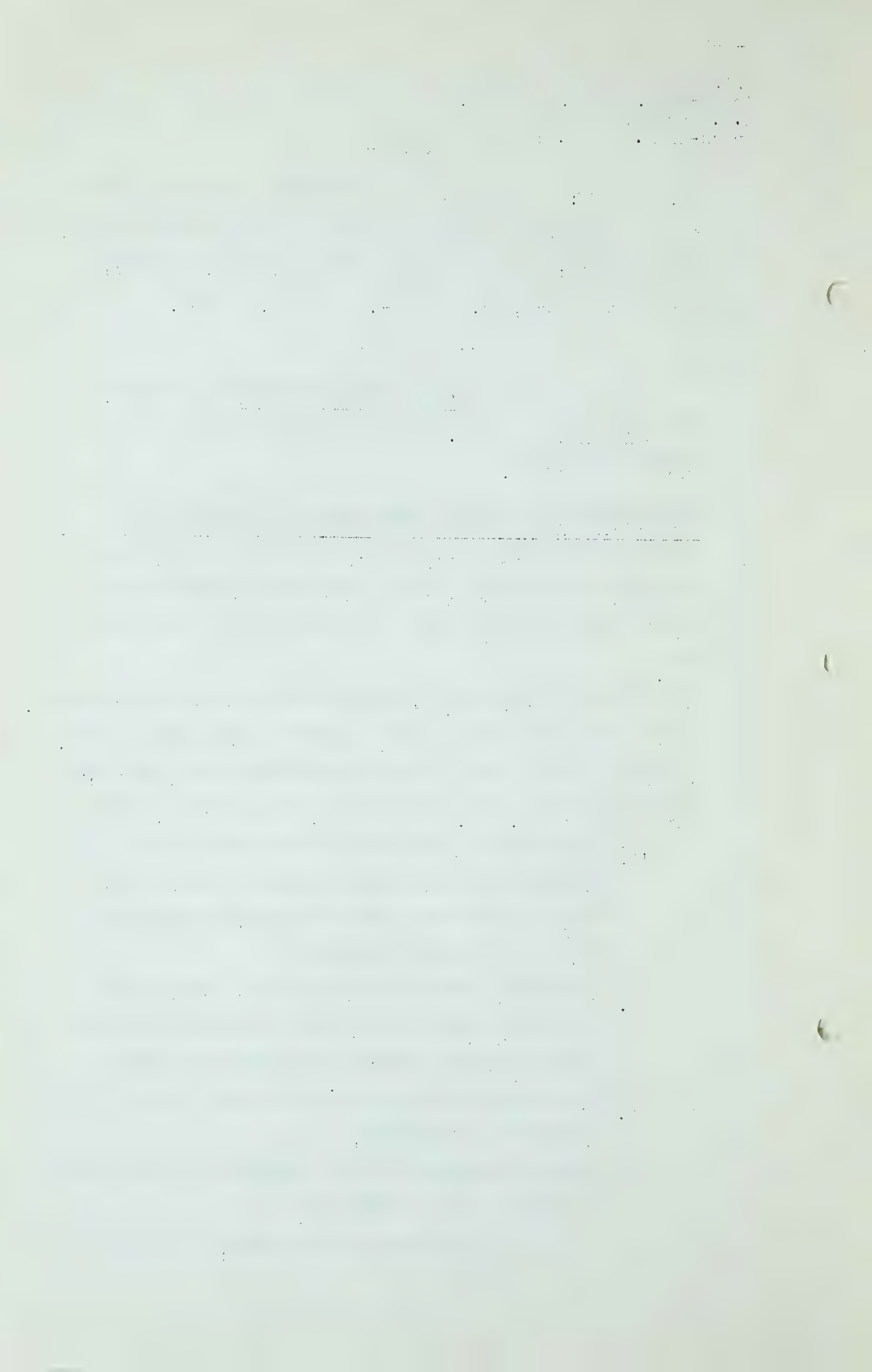
"Q. But from your knowledge of the books of the
Company were there any statements prepared at
any time which did show the operating results
of the natural gas division?

A. There were statements prepared at times which
showed the operating results of the natural gas
division in its residue gas operating aspect.

Q. Yes, and do those show what Mr. Hill terms
'successful operation'?

A. I would assume them to be successful for the years
for which I have reference."

And then over the page:



R. D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6495 -

"Q. And in these statements was there any division of operating costs or were they founded on any division of operating costs?

A. Operating costs in what respect, sir?

Q. Handling and gathering lines for instance?

A. Oh yes, certainly.

Q. And do you remember how they were divided?

A. I certainly do. They were divided on a basis of gross realization from the two plants which were affected by them."

And then on page 1899:

"Q. It happens to be your view and you are entitled to your view."

That was dealing with what was a fairer method:

"Now tell me, have you any recollection of working it out on percentages, what that resulted in as to the relevant value?

A. Prior to 1944?

Q. Yes, when you set up - -

A. I would have to quote roughly from memory.

Q. You can make it as roughly as you like.

A. I would say forty to sixty.

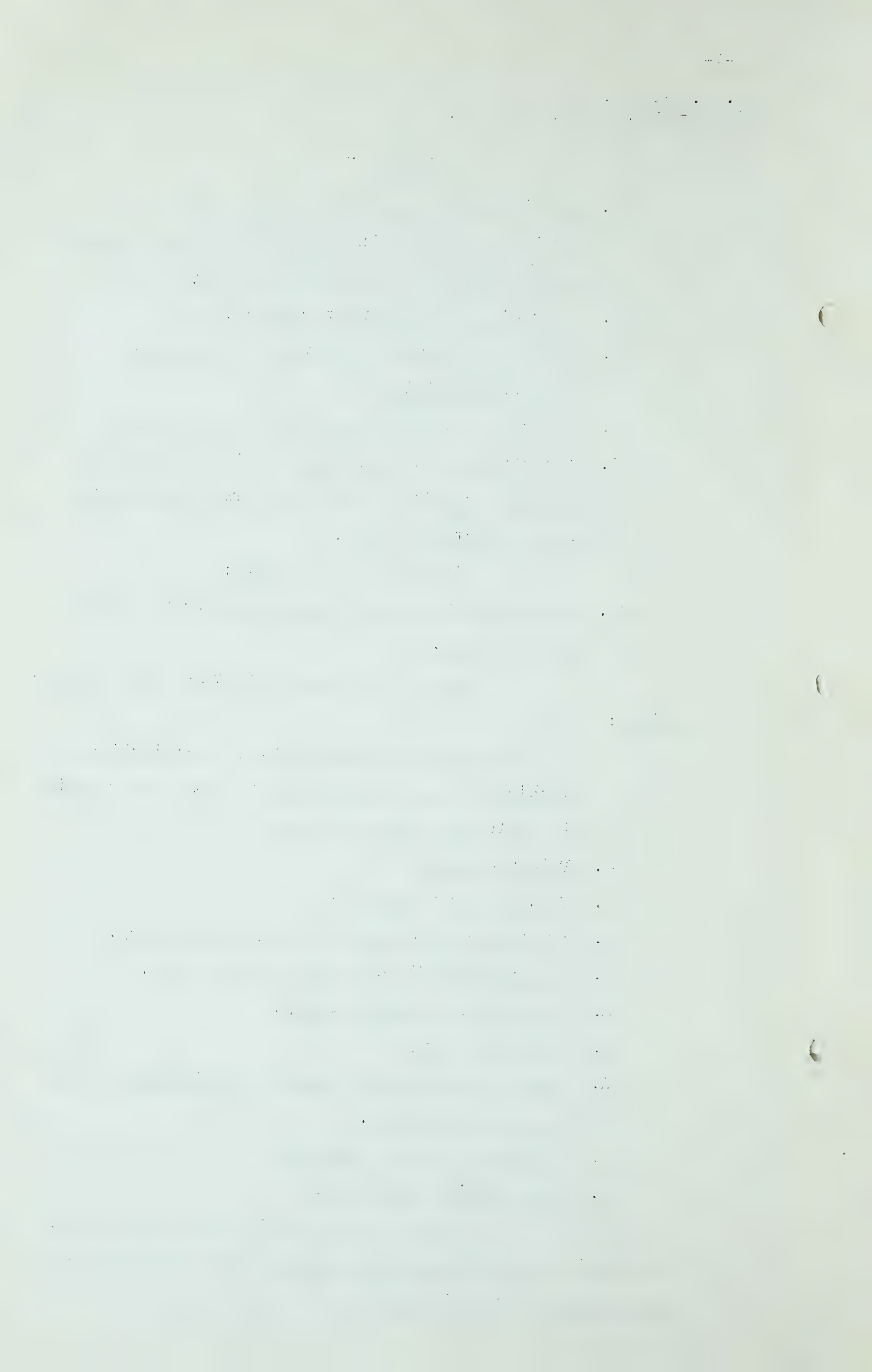
Q. Which was forty?

A. Sixty I think was the natural residue gas, that is my recollection.

Q. And forty was the gasoline?

A. The gasoline operation."

I take it we are in accord that these statements which were produced yesterday do not refer to those things at all do they?



R.D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6496 -

A Actually no. Those statements were primarily prepared to show the depletion allowance for income tax.

Q I want you to divorce your mind from these statements entirely and tell me whether you have any independent personal recollection of the existence of such statements as were discussed there that I have just read.

A I believe Mr. Kirkpatrick refers there and dealt with statements that were prepared to effect a settlement in connection with the compensation scheme.

Q I want to refresh your memory

MR. CHAMBERS: Let him answer your question. You head him off and he wants to tell you some more.

MR. FENERTY: I am sorry. You finish then. What is it?

A To the best of my knowledge there were two, Mr. Kirkpatrick alluded to statements twice, if I remember in going over the transcript. One was the income tax statements and the other was the statement that was prepared to effect a settlement under this compensation scheme.

Q Perhaps my learned friend will appreciate I was trying to save Mr. Mercer from himself but if he wants it he can have it.

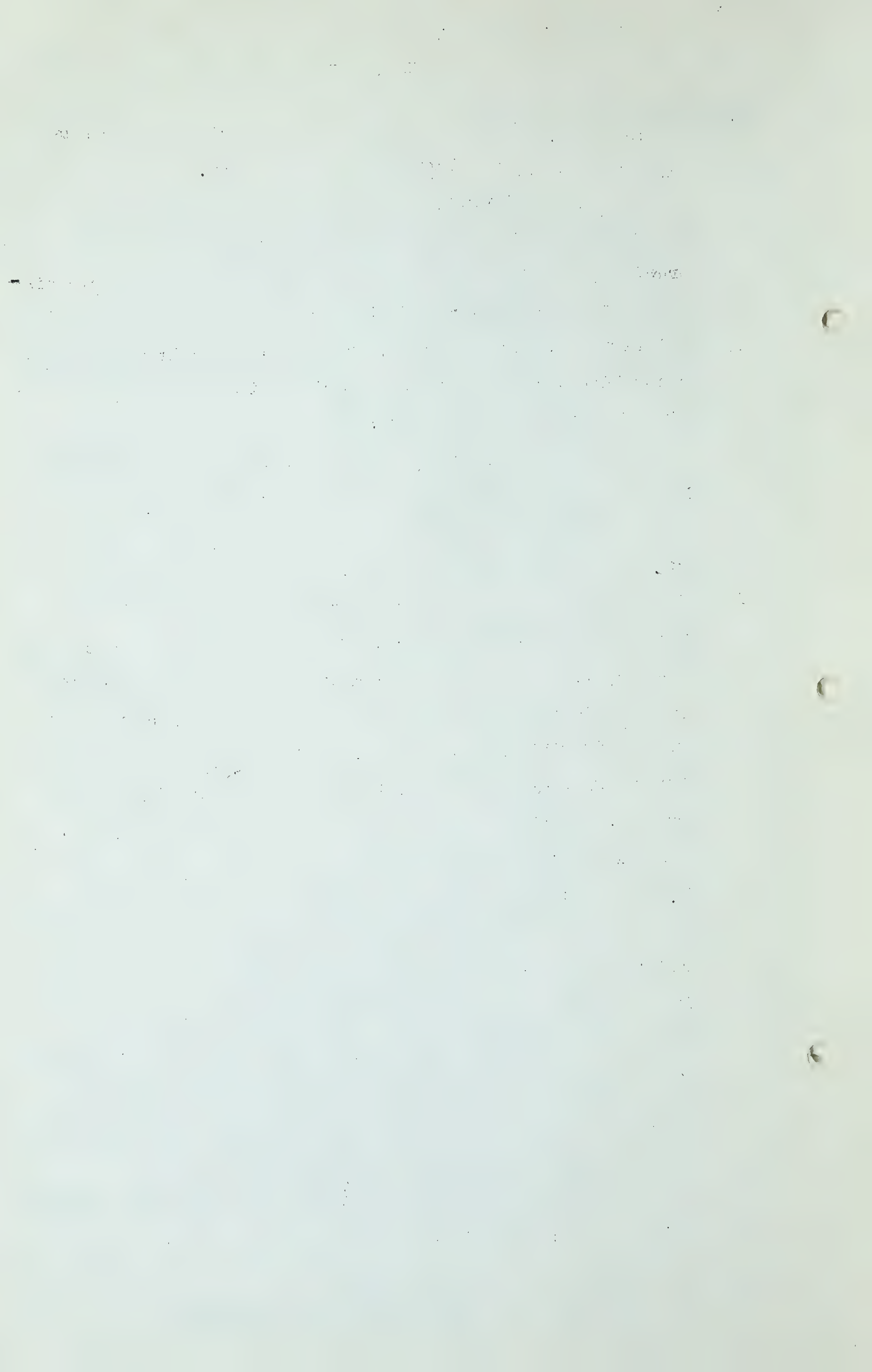
MR. CHAMBERS: We do not want any saving.

Q MR. FENERTY: Mr. Kirkpatrick swore that these statements were prepared annually. The statements you have reference to for the Conservation Board, that was a statement in 1943 but I am talking about the ones prepared annually for 1939 or 1940 and not the 1943 statement. Now do you or do you not know about them? Just tell me yes or no.

A Those are the only statements I know about that were prepared annually.

Q MR. FENERTY: Do you know?

MR. CHAMBERS: Let him answer the question.



R. D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6497 -

THE CHAIRMAN: Just a moment. There is no need to shout.

MR. CHAMBERS: Counsel cut the witness off before he had finished his answer.

THE CHAIRMAN: The witness is not answering the question directly and I do not blame Mr. Fenerty for interrupting.

A I only know of the statements that have been submitted that were prepared annually.

Q You have been asked a simple question, cannot you answer yes or no?

MR. FENERTY: If you will tell me you do not know, or if you do know you do not know where they have gone and we cannot find them, I will be at the end of the trail and I will sit down. I am going to try and find out something from some grown individual about the statements sworn to by Mr. Kirkpatrick. Now will you just tell me whether you have any independent recollection of statements prepared once annually for at least one or two years prior to 1943 in which there was a division of the gathering costs between the absorption operation and the dry gas operation. Just tell me if you know anything of them.

A I know nothing of them.

Q Have you made enquiries for them?

A Yes.

Q And you cannot find them?

A I cannot find them.

Q And you do not know of anybody who can produce them?

A No.

Q That is all I wanted to find out. I am at the end of the trail then. As far as you know there were no such statements ever in existence?

R. D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6498 -

A Not as you allude to them, no. The only statements I know of are these statements that were submitted yesterday.

Q That is all I can get and that is all I want.

THE CHAIRMAN: Mr. Fenerty, there was a statement that I asked Mr. Kirkpatrick about.

MR. FENERTY: I thought that was the Conservation Board one.

THE CHAIRMAN: No, I certainly asked some questions about these statements and I asked him if he had them in his custody and he said he had.

MR. FENERTY: I know. That is what I am up against. I am not going to make any comments on the evidence.

THE CHAIRMAN: If they were in his custody I want to know what happened to them.

MR. FENERTY: I am not satisfied but I am silenced.

THE CHAIRMAN: You still have your alternative, Mr. Fenerty, and that is to have the books produced.

MR. FENERTY: Well I cannot do any more with Mr. Mercer.

THE CHAIRMAN: What are those statements, Mr. Fenerty, that I referred to?

MR. FENERTY: This is how it all came up.

"Q. Mr. Kirkpatrick, if you were the manager of a company that was operating three divisions in half a dozen branches and your over-all picture was satisfactory and you were able to pay a dividend, would you not as a manager desire to know if each department was carrying its own share of the load?

A. I, as a manager, would want to know what the position was with respect to each of those departments, with the knowledge that certain of the expenditures would

R. D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6499 -

" have to be arbitrary, but I would have to have some picture as to the breakdown.

Q. And if one of those branches that I am talking about was not paying its way you would probably eliminate it?

A. No, not necessarily. It might be an unprofitable operation but yet it would be a necessary adjunct to the whole.

Q. But that is the purpose of preparing statements as far as can be done scientifically with relation to each department?

A. That is correct.

Q. So that the manager will know what is going on?

A. Exactly.

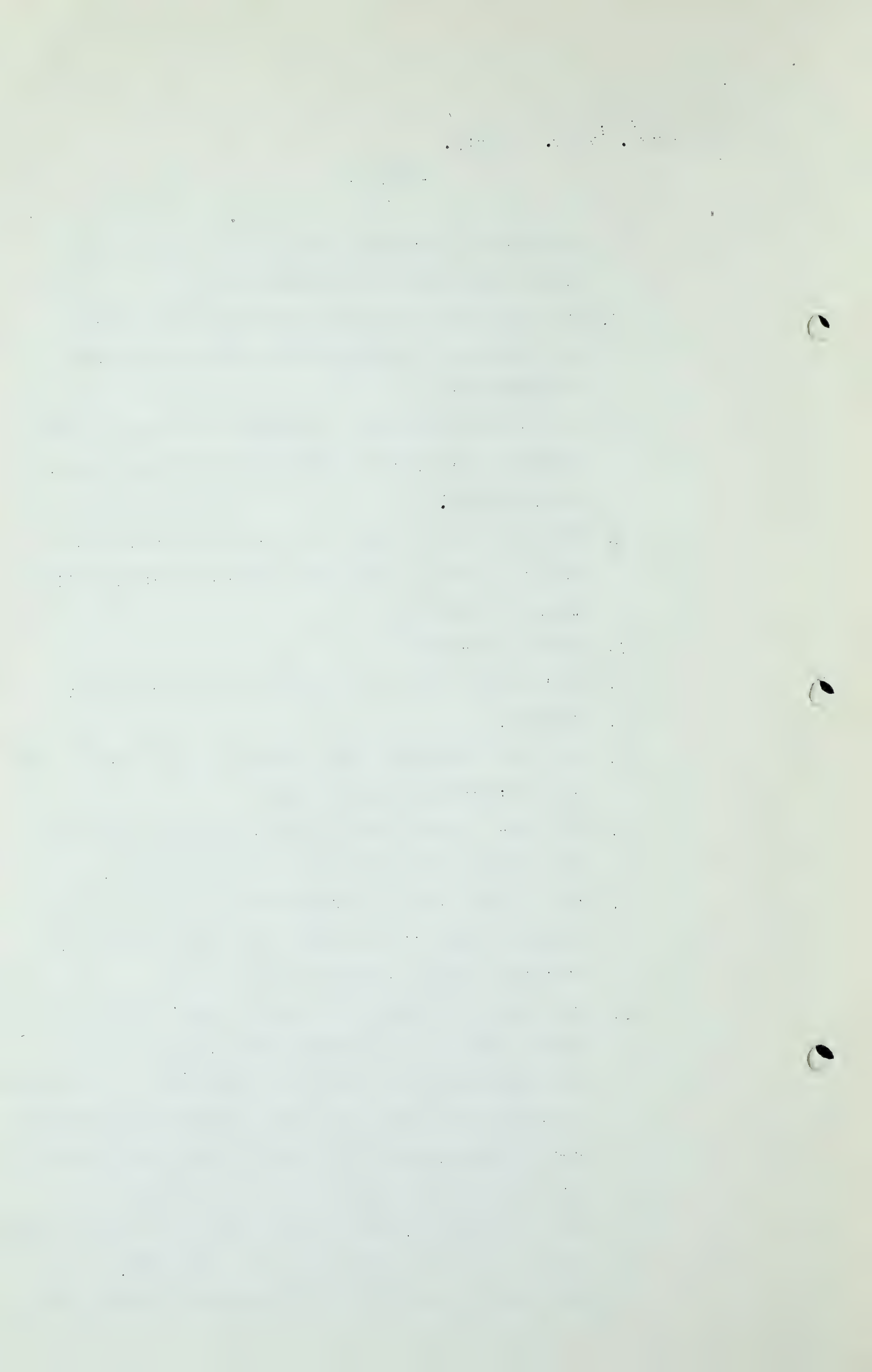
Q. And such statements were prepared in respect to the company's various operations?

A. They were prepared with respect to the total operations and broken down for various purposes.

Q. And did you have a breakdown for the production division, the oil division, the absorption plant division and the gas division?

A. The breakdown which I am talking about, there were special statements prepared with regard to the natural gas and the gasoline operations as a combined operation, and there were other statements prepared with respect to production as a whole, the gasoline, natural gas and sundry. Now this statement which I last referred to, the sundry operations, is one which is not involved with production of the gas.

Q. My point is that there are statements showing the



R. D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6500 -

" results of the operations of each of the various divisions of Royalite?

A. That is correct.

Q. And how often were these statements prepared?

A. Once annually, to my knowledge.

Q. Do you know when the Company commenced preparing those statements?

A. I think with respect to the year 1940 or '39, I am not certain.

Q. It did not start in 1943, for instance?"

And then there comes the one for the Commission. That is all respecting that, and that is exactly where I got the trail of it, because of the Board's question.

THE CHAIRMAN: And then further on, Mr. Kirkpatrick made the statement he had these statements in his possession.

MR. FENERTY: Yes.

THE CHAIRMAN: Or in his custody rather.

MR. FENERTY: Yes. They are now in the custody of the Royalite Company and he cannot deal with them. That is all I can say to Mr. Mercer. I still want them produced if they can be found but if they cannot find them then he cannot produce them.

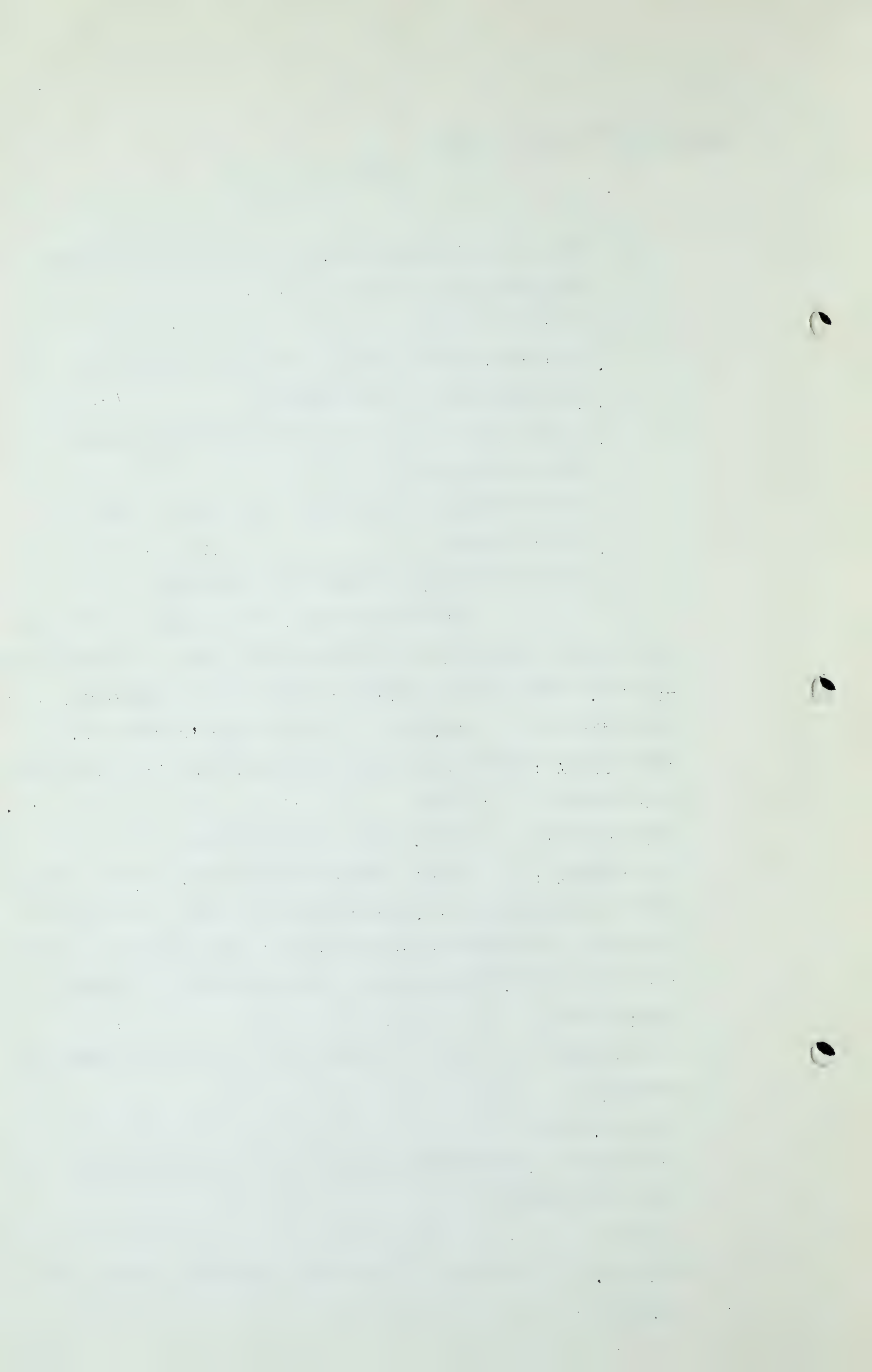
Q THE CHAIRMAN: How long have you been with the Royalite Company.

A Sixteen years.

Q And were you immediately subordinate to Mr. Kirkpatrick before he moved?

A No, sir.

Q How long had you worked in the same department as Mr. Kirkpatrick?



R. D. Mercer,
Cross-Exam. by Mr. Fenerty.

- 6501 -

A Mr. Kirkpatrick worked in the department with me for probably six years.

Q Is it possible that statements such as he spoke of and regarding which you have just heard part of his evidence, is it possible that if such statements were prepared you knew nothing of them?

A That might be possible, sir.

Q You say that you would have no knowledge of such statements having been prepared?

A Not as I understand, except the statements that have been submitted.

Q You say without equivocation and without regard to any other statements, have you any knowledge of statements having been prepared such as are referred to in the evidence that has just been read to you?

A No, sir, I have no knowledge.

Q You know that we want those statements don't you?

A Yes, sir.

Q Have you looked for them?

A Yes.

C-2-1 - 11.30 A.M.

R. D. Mercer,
Exam. by The Chairman.

- 6502 -

Q And you have been unable to find them ?

A Quite right.

Q Can you give us any idea what has happened to them, in a business organization, it seems to me incredible that any Company operating three or four divisions would not want to know that each one was carrying its own weight and the only way you could do that would be by having statements prepared, and the accountant of the Company says they were prepared annually.

A To the best of my knowledge the statements that were referred to were the ones that were submitted yesterday, sir.

Q Oh no, no, why - -

MR. CHAMBERS: Now sir, I do submit very strenuously and emphatically that a misunderstanding has arisen. Now I am not saying that it should not be put to the witness this way, but that is his interpretation as to what Mr. Kirkpatrick had in his mind, ^{when} he referred to annual statements being prepared year by year.

THE CHAIRMAN: To show the operating results of each Department ?

MR. CHAMBERS: Yes, and they are produced for certain purposes.

THE CHAIRMAN: Oh no, no.

MR. FENERTY: These do not touch it.

THE CHAIRMAN: And I think, if you will go further in the evidence, you will find that those statements were prepared and sent to the Head Office of the Company in Toronto, that is my recollection now.

MR. FENERTY: Well I am not going to take up the time of the Board further and I am not going to ask the Board to

R. D. Mercer,
Exam. by The Chairman.

- 6503 -

make any further orders, but I do feel that I should have them and if Mr. Mercer cannot get them or cannot find them, he is only human.

THE CHAIRMAN: Mr. Fenerty, I was hoping that we would finish today but if you want those books produced I will sit for the next six months.

MR. FENERTY: No. As a matter of fact I understand, as far as I know now, the books will probably show some such break down as we have here. We have no reason to suppose at the moment that there is a break down on the books showing the gathering costs allocated, and that is the reason I wanted the statements, to show what happened on that basis. No, I think I am through.

MR. STEER: What I suggest, Mr. Chairman, is that there is ample evidence on this record now, that for some purposes the Company did divide in the proportion of 40-60 and there is ample evidence for the Board to adopt that proportion if it sees fit to do so.

THE CHAIRMAN: Or some other figure.

MR. STEER: Or some other figure.

MR. FENERTY: And that is one reason I am not going further with it now.

THE CHAIRMAN: Anything further from Mr. Mercer. All right, Mr. Mercer, thank you.

Now, gentlemen, that brings us to the end of the evidence and now we have to decide when the argument will be heard and what, to my mind is equally important, how long it is going to take.

When will you be back from Ottawa, Mr. Steer ?

MR. STEER: I would not like to say before the 5th or 6th of June.

THE CHAIRMAN: Well that solves one problem, there are both civil and criminal courts on the 3rd of June, so I suggest that we start the argument on the 10th of June.

Now are you prepared to sit four or five days a week on the argument ?

MR. STEER: Oh I would think so, right straight ahead.

MR. CHAMBERS: Morning and afternoon sessions.

THE CHAIRMAN: Yes, and how long ?

MR. CHAMBERS: Well I would suggest that we go on Court of Appeal hours if we can because somebody is going to be on his feet, probably every one of us, at least a day.

THE CHAIRMAN: Well what would you say, from ten to twelve and two to four ?

MR. HARVIE: I think those are very workable hours.

THE CHAIRMAN: Then we will start on the 10th and as far as possible carry on continuously until we are finished.

Now in that connection there are one or two things I want to mention.

I suggest that so far as the reserves in Turner Valley are concerned, very little time need be spent in argument regarding the reserves, because I think Dr. Katz' final summation was accepted by everyone without question. However that is only a suggestion. I do not want to interfere with what you gentlemen wish to do.

Then there is the question of the division of the reserves as between the north, the centre and the south end of the field. I have an idea that some agreement has been reached between the various parties as to that although I am

Discussion.

- 6505 -

not quite clear on that.

Now the whole Hearing bristles with difficulties and there are one or two matters that are giving me quite a lot of concern.

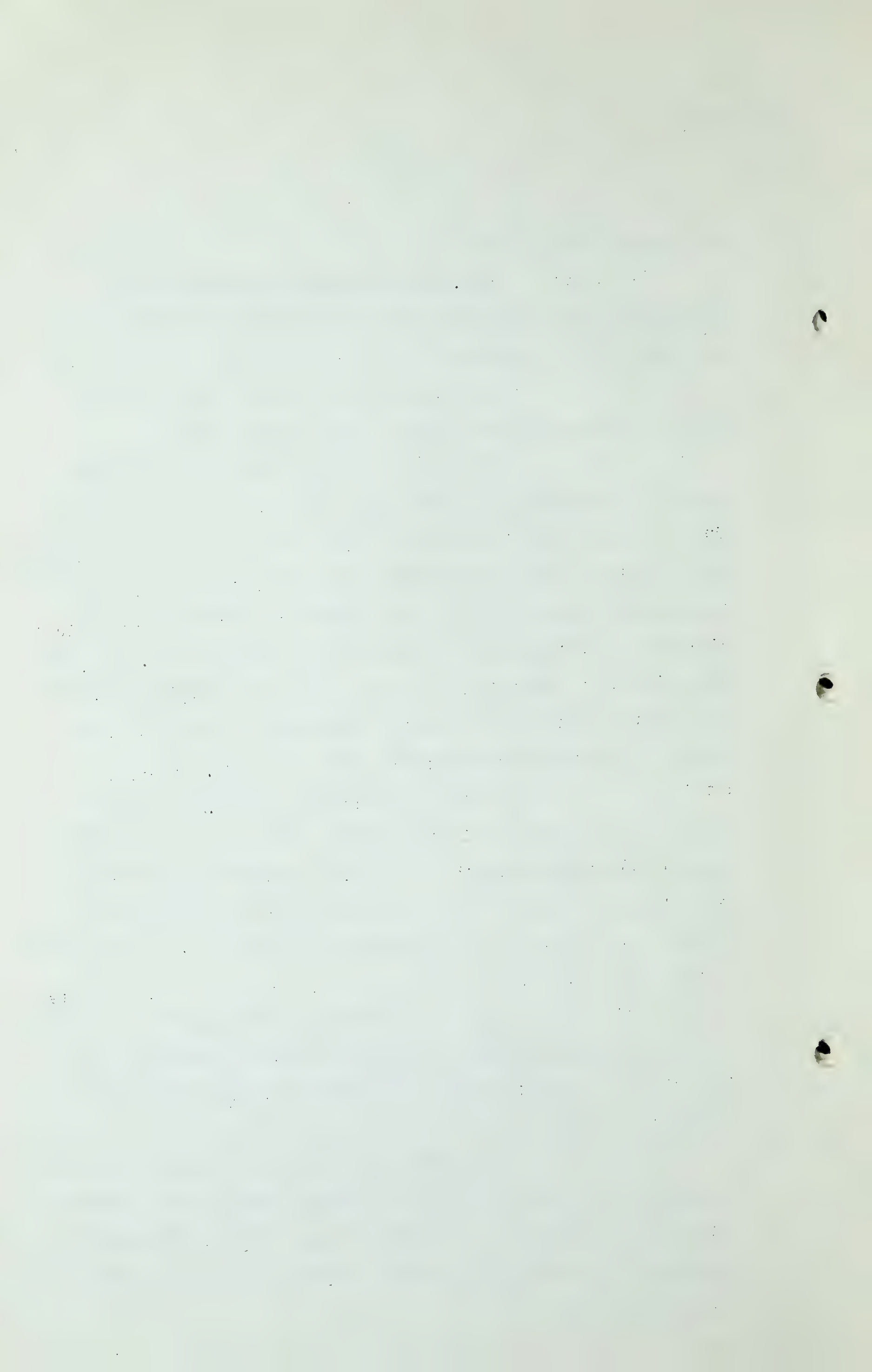
The one is the wellhead price and I do want the benefit of your help on that proposition.

The other is the one over which we have just been "breezing" a moment ago, and that is the cost allocation between the well head and the absorption plant. We have had suggested sales realization but outside of Mr. Kirkpatrick's statement we have not very much concrete evidence on that. There is the volumetric method which is suggested. Weight was suggested but there was no evidence whatever before us on that and then we have another method mentioned by Mr. Steer, the detail of which for the moment I have forgotten.

Now in the past the absorption plant has carried all the cost of these lines. Should the absorption plant continue to do so? If a ruling of that kind should be made then what would be the position of the gathering line which this Board has ordered Madison to put in? That presents a real difficulty.

There is a problem in the south end of the field that Counsel might give a good deal of thought to and that is the British American low pressure gathering and repressuring system.

Now should the cost of that low pressure system in the south end of the field be borne by the ultimate consumer or should it be borne by B. A. and the producers or should it be borne by all three of them, and if so in what proportion?



Discussion.

- 6506 -

I want you also if you will to work out the formula that you individually think is applicable to each particular case. The formula for fixing rates for simple utilities is a very simple formula. You determine the initial investment and the rate of return to be allowed. Then your formula simply is a rate of interest on the investment plus the total operating costs, including costs of administration and raw material, if any raw material enters into the picture, plus your depreciation. Those three items make up the revenue which the public utility requires and represents the numerator of the equation. The denominator is the amount of gas or the amount of service which the utility gives and the quotient gives the rate for the gas. Very simple. But this is not a simple utility. On the contrary it is three exceedingly complex utilities and I imagine that each one of you will have very different formulae but I want you to prepare and submit whatever you think the proper formula should be for your particular case and then the Board will have to decide which of those shall be adopted.

Now I do not want you to think that I imagine that all the other problems are simple or easy, or that I have already solved them. I do not think any of them are simple and they are not easily determined. I only mention these because at the moment they do stick out.

Now I want and I need all the help that all of you can give me, and I have only mentioned these problems that I thought were particularly difficult.

I do want all of you to know how much I have

C-2-6

Discussion.

- 6507 -

appreciated the assistance which you have given me and in spite of the occasional breeze once in a while, there has been very splendid co-operation between Counsel and witnesses.

We will now adjourn until 10 o'clock on June 10th.

(The Inquiry was here adjourned to be resumed at 10 o'clock June 10th, 1946)

- 100 -

...the assistance which you have given me and in spite
of the occasional phrase used in a staff, there has been a
...co-operation between General and ...
We will now return with 10 ...

...this

...the ... have ... to be ...
... (100)

